S. HRG. 100-168

TO PRESENT AND EXAMINE THE RESULT OF A SURVEY OF THE GRADUATES OF THE SMALL BUSINESS ADMINISTRATION SECTION 8(a) MINORITY BUSINESS DEVELOPMENT PROGRAM

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

TO

PRESENT AND EXAMINE THE RESULT OF A SURVEY OF THE GRADUATES OF THE SMALL BUSINESS ADMINISTRATION SECTION 8(a) MINORITY BUSINESS DEVELOPMENT PROGRAM

MAY 12, 1987

Printed for the use of the Committee on Small Business

U.S. GOVERNMENT PRINTING OFFICE

76-344 WASHINGTON : 1987

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

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76-344 O - 87 - 1

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TO PRESENT AND EXAMINE THE RESULT OF A SURVEY OF THE GRADUATES OF THE SMALL BUSINESS ADMINISTRATION SECTION 8(a) MINORITY BUSINESS DEVELOPMENT PROGRAM

TUESDAY, MAY 12, 1987

U.S. SENATE,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met at 10 a.m. in room SR-428A, Russell Senate Office Building, Hon. Dale Bumpers (Chairman of the Committee) presiding.

STATEMENT OF HON. DALE BUMPERS, A U.S. SENATOR FROM THE STATE OF ARKANSAS

The CHAIRMAN. The Committee will come to order.

First I want to congratulate Senator Weicker and his staff for their diligent efforts over the past year in conducting this study, which is the subject of today's hearing.

The Committee's report, released this morning, reiterates the reasons why the Small Business Administration's 8(a) Program has become the target of criticism from the public and Congress. It illustrates the crippling effects of poor program administration on the opportunities that minority-owned small businesses so well deserve.

The track record of the 8(a) Program is one that fails not so much on the question of quantity but on the question of quality. When fixed program participation terms were initially implemented in 1980, many of you will recall that the fortunetellers predicted disaster.

Many said that most 8(a) firms would shut their doors immediately after graduation from the program. But Senator Weicker's study indicates the 70 to 80 percent of the 8(a) graduates managed to stay in business, disproving the prophecies of years ago.

Although most firms stay alive, we can not assume that if the horse trots it will run. We cannot automatically assume that recent 8(a) graduates that exist today will prosper tomorrow.

Our ultimate assessment of the 8(a) Program must not be based just on the number of operating graduates, but also on whether they receive the experience and the tools with which to prosper in the future.

The survey shows overwhelmingly that 8(a) firms do not receive the kind of management and technical assistance that we contemplated by the law, P.L. 96-481.

SBA cannot congratulate itself when its 8(a) graduates do not obtain the tools for continued business development. This jeopardizes the future of each and every program graduate.

I am also concerned that the Administration does not have a set criteria for establishing program tenure and granting extensions of time. The arbitrary way in which applicants are accepted and time is extended makes it impossible for business owners to plan for the future.

The arbitrary nature of the decision-making process about participation time lends credence to the widely held belief that 8(a) is a highly political program. Members of this Committee in particular are regularly besieged by firms either trying to get into the 8(a) Program or trying to stay in.

And while it is my firm policy not to intervene in such matters, I find SBA's handling of these decisions generally unsatisfactory. A business development program cannot be equitable when politics rather than performance decides who gets the corn and who gets the cob.

This hearing is the foundation for what we hope will be a stronger 8(a) Program. Two bills have been presented in the House which present two very different answers to problems which plague the program.

Congressman Mavroules proposes an expanded program and in-house safeguards to prevent politicizing the program. Congressmen Conte on the other hand calls the agency on the carpet for its poor performance by suggesting that program management be contracted to the private sector. His bill, while radically different, deserves careful study.

I believe the Small Business Administration is capable of operating a viable 8(a) Program, despite evidence to the contrary in the form of Wedtech, or Univox, or Amex or any other scandalous anecdote that may be called to mind.

I trust that its new leader, Senator Abdnor, will give his attention to the delinquent program and join us in our efforts to ensure opportunity for all small businesses.

[The prepared statement of Senator Bumpers follows:]

STATEMENT OF SENATOR DALE BUMPERS

CHAIRMAN

COMMITTEE ON SMALL BUSINESS

MAY 12, 1987

I CONGRATULATE SENATOR WEICKER AND HIS STAFF FOR THEIR DILIGENT EFFORTS OVER THE PAST YEAR IN CONDUCTING THE STUDY WHICH IS THE SUBJECT OF TODAY'S HEARING. THE COMMITTEE'S REPORT RELEASED THIS MORNING REITERATES THE REASONS WHY THE SMALL BUSINESS ADMINISTRATION'S 8(A) PROGRAM HAS BECOME THE TARGET FOR CRITICISM FROM THE PUBLIC AND CONGRESS. IT ILLUSTRATES THE CRIPPLING EFFECTS OF POOR PROGRAM ADMINISTRATION ON THE OPPORTUNITIES FOR MINORITY-OWNED SMALL BUSINESSES.

THE TRACK RECORD OF THE 8(A) PROGRAM IS ONE THAT FAILS NOT SO MUCH ON THE QUESTION OF QUANTITY, BUT ON THE ISSUE OF QUALITY. WHEN FIXED PROGRAM PARTICIPATION TERMS WERE INITIALLY IMPLEMENTED IN 1980, MANY OF YOU WILL RECALL THAT THE FORTUNE TELLERS PREDICTED DISASTER. MANY PREDICTED THAT MOST 8(A) FIRMS WOULD SHUT THEIR DOORS IMMEDIATELY AFTER GRADUATION FROM THE

PROGRAM. SENATOR WEICKER'S STUDY INDICATES THAT SEVENTY TO EIGHTY PERCENT OF 8(A) GRADUATES MANAGE TO STAY IN BUSINESS, DISPROVING THE PROPHECIES OF YEARS AGO.

ALTHOUGH MOST FIRMS STAY ALIVE, WE CANNOT ASSUME THAT IF THE HORSE TROTS IT WILL RUN. WE CANNOT AUTOMATICALLY ASSUME THAT RECENT 8(A) GRADUATES THAT EXIST TODAY WILL PROSPER TOMORROW. OUR ULTIMATE ASSESSMENT OF THE 8(A) PROGRAM MUST NOT BE BASED JUST ON THE NUMBER OF OPERATING GRADUATES, BUT ALSO ON WHETHER THEY RECEIVED THE EXPERIENCE AND THE TOOLS WITH WHICH TO PROSPER IN THE FUTURE. THIS SURVEY SHOWS OVERWHELMINGLY THAT 8(A) FIRMS DO NOT RECEIVE THE KIND OF MANAGEMENT AND TECHNICAL ASSISTANCE CONTEMPLATED BY P.L. 96-481.

SBA CANNOT CONGRATULATE ITSELF WHEN ITS 8(A) GRADUATES DO NOT OBTAIN THE TOOLS FOR CONTINUED BUSINESS DEVELOPMENT. THIS JEOPARDIZES THE FUTURE OF EACH AND EVERY PROGRAM GRADUATE.

I AM ALSO CONCERNED THAT THE ADMINSITRATION DOES NOT HAVE A SET CRITERIA FOR ESTABLISHING PROGRAM TENURE AND GRANTING EXTENSIONS OF TIME. THE ARBITRARY WAY IN WHICH APPLICANTS ARE ACCEPTED AND TIME IS EXTENDED MAKES IT IMPOSSIBLE FOR BUSINESS

OWNERS TO PLAN FOR THE FUTURE. THE ARBITRARY NATURE OF THE DECISION-MAKING PROCESS ABOUT PARTICIPATION TIME LENDS CREDENCE TO THE WIDELY-HELD BELIEF THAT 8(A) IS A HIGHLY POLITICAL PROGRAM. MEMBERS OF THIS COMMITTEE IN PARTICULAR ARE REGULARLY BESIEGED BY FIRMS EITHER TRYING TO GET INTO THE 8(A) PROGRAM OR TRYING TO STAY IN. AND, WHILE IT IS MY FIRM POLICY NOT TO INVERVENE IN SUCH MATTERS, I FIND SBA'S HANDLING OF THESE DECISIONS GENERALLY UNSATISFACTORY.

A BUSINESS DEVELOPMENT PROGRAM CANNOT BE EQUITABLE WHEN POLITICS, RATHER THAN PERFORMANCE, DECIDES WHO GETS THE CORN AND WHO GETS THE COB.

THIS HEARING IS THE FOUNDATION FOR WHAT WE HOPE WILL BE A STRONGER 8(A) PROGRAM. TWO BILLS HAVE BEEN PRESENTED IN THE HOUSE WHICH PRESENT TWO VERY DIFFERENT ANSWERS TO PROBLEMS WHICH PLAGUE THE PROGRAM. CONGRESSMAN MAVROULES PROPOSES AN EXPANDED PROGRAM AND IN-HOUSE SAFEGUARDS TO PREVENT POLITICIZATION. CONGRESSMAN CONTE, ON THE OTHER HAND, CALLS THE AGENCY ON THE CARPET FOR ITS POOR PERFORMANCE BY SUGGESTING THAT PROGRAM MANAGEMENT BE CONTRACTED TO THE PRIVATE SECTOR. HIS BILL, WHILE RADICALLY DIFFERENT, DESERVES CAREFUL STUDY.

I BELIEVE THAT THE SMALL BUSINESS ADMINSITRATION IS CAPABLE OF OPERATING A VIABLE 8(A) PROGRAM DESPITE EVIDENCE TO THE

CONTRARY IN THE FORM OF WED-TECH, OR UNIVOX, OR AMEX OR ANY OTHER SCANDALOUS ANECDOTE WHICH MAY BE CALLED TO MIND. I TRUST THAT ITS NEW LEADER, SENATOR ABDNOR, WILL GIVE HIS ATTENTION TO THIS DELINQUENT PROGRAM AND JOIN US IN OUR EFFORT TO ENSURE OPPORTUNITY FOR ALL SMALL BUSINESSES.

NOW I WILL TURN TO OUR DISTINGUISHED RANKING REPUBLICAN MEMBER SENATOR WEICKER FOR HIS COMMENTS.

The CHAIRMAN. Now I will turn to our distinguished ranking Member, Senator Weicker, for his comments.

STATEMENT OF HON. LOWELL WEICKER, JR., A U.S. SENATOR FROM THE STATE OF CONNECTICUT

Senator WEICKER. I am going to ask that my statement be submitted in its entirety to the record.

I would suggest that we get on with the business at hand which, in my way of thinking, is very simple. And that is to get accurate information so that we can correct whatever abuses exist in the 8(a) Program, because I want to make sure that that program continues to live and continues to provide opportunity for so many people in this Country.

But unfortunately we have a spate of publicity which could very well submarine the entire program, which does not deserve, I might add, that kind of fate. The basis on which we will act will not be speculation, politics nor publicity, but rather fact.

And I understand that we are here today to receive the results of several months of what indeed has been very hard work in getting together the facts on which we can base our substantive judgments. I look forward to the testimony we will have before us.

[The prepared statement of Senator Weicker follows:]

OPENING STATEMENT OF SENATOR LOWELL WEICKER, JR.

ON

SURVEY ON SECTION 8(A) MINORITY BUSINESS DEVELOPMENT PROGRAM

MAY 12, 1987

TODAY, THE COMMITTEE IS RELEASING THE FIRST COMPREHENSIVE SURVEY OF MINORITY BUSINESSES WHICH HAVE GRADUATED FROM THE SMALL BUSINESS ADMINISTRATION'S (SBA) SECTION 8(A) PROGRAM. THE COMMITTEE'S OVERSIGHT OF THIS IMPORTANT MINORITY BUSINESS DEVELOPMENT PROGRAM COMES AT A VERY CRITICAL TIME. IN MY OPINION, THE 8(A) PROGRAM IS AT A CROSSROADS. A WIDE RANGE OF LEGISLATIVE REFORMS HAVE ALREADY BEEN INTRODUCED IN THE HOUSE, PARTIALLY IN RESPONSE TO WELL-DOCUMENTED CASES OF ABUSE AND MISMANAGEMENT. CHANGES THAT CONGRESS MAKES IN THIS PROGRAM WILL CHART THE COURSE OF FEDERAL MINORITY BUSINESS ASSISTANCE FOR THE NEXT DECADE.

WE WILL HEAR FROM SEVERAL 8(A) GRADUATES AND THE ADMINISTRATOR OF THE SMALL BUSINESS ADMINISTRATION. THE COMMITTEE WILL SEEK TO DETERMINE WHETHER THIS PROGRAM IS FULFILLING ITS STATUTORY GOAL OF BUSINESS DEVELOPMENT OR IS IT SIMPLY A MEANS TO OBTAIN CONTRACTS ON A NON-COMPETITIVE BASIS.

WITH THE ENACTMENT OF P.L. 96-481, CONGRESS REQUIRED SBA TO ESTABLISH GRADUATION DATES FOR ALL MINORITY FIRMS THAT PARTICIPATE IN THE 8(A) PROGRAM. FURTHERMORE, CONGRESS REQUIRED SBA TO

PROVIDE 8(A) FIRMS WITH THE MANAGEMENT TOOLS NECESSARY TO EFFECTIVELY COMPETE IN A FREE AND OPEN MARKETPLACE.

I KNOW OF NO BETTER YARDSTICK TO JUDGE THE PROGRAM'S SUCCESS THAN TO FIND OUT WHAT HAPPENED TO THE MINORITY BUSINESSES THAT WERE REQUIRED TO LEAVE THIS PROGRAM. WERE THEY ABLE TO SURVIVE AND PROSPER?

WHAT IS PARTICULARLY TROUBLING TO ME IS WHY SBA DID NOT SEEK ANSWERS TO THAT BASIC QUESTION. I BELIEVE THERE IS MUCH TO LEARN FROM THE EXPERIENCE OF PAST PROGRAM PARTICIPANTS.

I WAS PLEASED TO LEARN THAT 70 PERCENT OF THE 461 FIRMS SURVEYED ARE STILL IN BUSINESS, SOMETIMES IN SPITE OF THE PROGRAM AND THE "HELP" THEY RECEIVED.

HOWEVER, THERE ARE OTHER ASPECTS OF THE SURVEY THAT CAUSE ME GREAT CONCERN: FIRST, THE PROGRAM IS STILL PRIMARILY A CONTRACTS PROGRAM; VERY FEW OF THE PROGRAM GRADUATES ARE INVOLVED IN MANUFACTURING; WHAT WE EXPECTED TO HAPPEN BETWEEN SBA AND THE MINORITY BUSINESS DEVELOPMENT AGENCY (MBDA) HAS NOT HAPPENED -- THE TRANSITION PROGRAM OUTLINED IN 1983 TO PREPARE 8(A) GRADUATES FOR THE COMPETITIVE MARKETPLACE HAS NOT BEEN EFFECTIVE; AND, IT STILL TAKES FAR TOO LONG FOR FIRMS TO GET CERTIFIED FOR THE PROGRAM.

THIS HEARING AND THE SURVEY WILL PROVIDE A BROAD OVERVIEW OF THE 8(A) PROGRAM, ITS STRENGTHS AND WEAKNESSES. I INTEND TO CLOSELY SCRUTINIZE THE RECOMMENDATIONS MADE BY THE PROGRAM GRADUATES. I NOTE THAT THE GRADUATES URGED THAT POLITICS BE TAKEN OUT OF THE PROGRAM. ALL TOO OFTEN, POLITICAL MUSCLE, NOT BUSINESS PLANS, DETERMINED WHO IS AWARDED THE CONTRACT. THIS SITUATION MUST STOP.

I LOOK FORWARD TO WORKING WITH MY GOOD FRIEND JIM ABDNOR AND OUR DISTINGUISHED CHAIRMAN SENATOR BUMPERS IN FASHIONING A THOUGHTFUL, COMPREHENSIVE 8(A) LEGISLATIVE REFORM PROPOSAL.

The CHAIRMAN. Thank you, Senator Weicker. Senator Bond, do you have an opening statement?

STATEMENT OF HON. CHRISTOPHER S. BOND, A U.S. SENATOR FROM THE STATE OF MISSOURI

Senator BOND. Thank you, Mr. Chairman. I too am delighted that you are having this hearing on the very important 8(a) Program, and I would join in commending the Ranking Member and his staff for the survey they have done to determine how this program works in operation.

Obviously we all take heart when we see the successes that have occurred under the 8(a) Program and I know that this morning's New York Times has examples set forth, and I am sure that the Administrator will have other examples.

Yet the continuing evidence of problems, of potential conflicts of interest, other major failings that have occurred in some aspects of the program, suggest that we consider very carefully not only the administrative failures which may have existed, but whether it is in fact time to make changes in the legislative structure, whether in fact there are flaws in existing legislation which permit the problems to occur.

I share the views expressed already about the need for a program to assist minority businesses and to provide an opportunity for them to enter the economic mainstream. I trust that the hearing and the other information we receive will give this Committee a sound basis for pursuing that objective. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Bond. Senator Dixon.

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM THE STATE OF ILLINOIS

Senator DIXON. Mr. Chairman, in the interest of time I will put my statement in the record.

[The prepared statements of Senators Dixon, D'Amato, Kasten, and Pressler follow:]

MAY 12, 1987

STATEMENT BY SENATOR ALAN J.DIXON

COMMITTEE ON SMALL BUSINESS

HEARINGS ON SBA MINORITY SMALL

BUSINESS DEVELOPMENT PROGRAM

THANK YOU, MR. CHAIRMAN.

I WANT TO CONGRATULATE THIS COMMITTEE ON EXERCISING OF LEGISLATIVE AND OVERSIGHT RESPONSIBILITY BY SURVEYING FIRMS WHICH HAVE GRADUATED FROM THE 8(A) MINORITY SMALL BUSINESS PROGRAM TO ASSESS THE EFFECTIVENESS

OF THE PROGRAM IN PREPARING FIRMS FOR THE COMPETITIVE MARKETPLACE.

WHEN WE REVIEWED THE SBA BUDGET IN FEBRUARY, I EXPRESSED CONCERN ABOUT THE STATUS OF FIRMS WHICH HAD GRADUATED FROM THE 8(A) PROGRAM. IMPLICIT IN THE CONCEPT OF THIS PROGRAM IS THAT IT PREPARE THE FIRMS TO THRIVE AFTER THEY LEAVE. THE SBA MUST BE COMMITTED TO AND DEDICATED TO SMALL BUSINESS DEVELOPMENT IN THE AREAS OF MANAGEMENT AND TECHNICAL ASSISTANCE. FIRMS MUST BE EQUIPPED WITH THE NECESSARY TOOLS FOR SUCCESS BEFORE THEIR PARTICIPATION IN THE PROGRAM ENDS. WE ARE DOING THESE FIRMS

A DISSERVICE IF UPON GRADUATION FROM THE PROGRAM THEY FAIL BECAUSE THEY ARE UNPREPARED TO COMPETE.

I DO FIND IT DISTURBING THAT THE COMMITTEE HAD SUCH DIFFICULTY IN CONTACTING GRADUATES. IN ORDER TO MEASURE THE SUCCESS OF A PROGRAM THERE MUST BE FOLLOW-UP. HOW CAN WE KNOW IF THE 8(A) PROGRAM IS MEETING THE NEEDS OF MINORITY SMALL BUSINESS IF THERE IS NO FOLLOW-UP. THE PARTICIPANTS SHOULD BE QUERIED AS TO THEIR NEEDS. THE GRADUATES SHOULD BE QUERIED AS TO WHAT HELPED THEM THE MOST; WHAT IN THE PROGRAM WAS OF MOST BENEFIT. THE

DROP-OUTS SHOULD BE ASKED, WHAT COULD HAVE BEEN DONE TO HELP THAT WASN'T. AND THE FAILURES AFTER GRADUATION SHOULD BE ASKED, WHAT WENT WRONG.

THESE ARE THINGS THAT THE SMALL BUSINESS ADMINISTRATION SHOULD KNOW--MUST KNOW IN ORDER TO GAIN MAXIMUM EFFECTIVENESS FROM THE PROGRAM. I BELIEVE THAT THERE ARE DEDICATED PEOPLE AT THE SBA WORKING WITH THE MINORITY SMALL BUSINESSES. BUT THEY CAN ONLY PROVIDE WHAT THEY KNOW IS NEEDED. IF THE ADMINISTATION FAILS TO ASSESS THE NEEDS OF THIS GROUP THEN MUCH EFFORT IS MISDIRECTED AND TIME, MONEY

ENERGY AND HOPE ARE WASTED. MANY BUSINESSES MAY BE FAILING NEEDLESSLY. CONTACT WITH PARTICIPANTS AND DROP-OUTS MUST BECOME PART OF THE 8(A) PROGRAM.

AGAIN I WOULD LIKE TO THANK THE DISTINGUISHED CHAIRMAN. I WOULD ALSO LIKE TO CONGRATULATE THE MINORITY SMALL BUSINESS OWNERS WHO ARE HERE TODAY FOR THEIR BUSINESS INITIATIVE AND FOR TAKING THE TIME TO TESTIFY BEFORE THIS COMMITTEE. I LOOK FORWARD WITH INTEREST TO THE TESTIMONY OF SENATOR ABDNOR AND HIS FELLOW WITNESSES AS THEY EVALUATE THE 8(A) PROGRAM AS A TOOL FOR BUSINESS DEVELOPMENT, AND DISCUSS THE SURVIVAL RATE OF PROGRAM GRADUATES.

STATEMENT BY SENATOR ALFONSE M. D'AMATO

BEFORE THE SMALL BUSINESS COMMITTEE

MAY 12, 1987

MR. CHAIRMAN, I WANT TO WELCOME TO THE SMALL BUSINESS COMMITTEE THIS MORNING OUR DISTINGUISHED PANEL OF WITNESSES WHO WILL HELP US ASSESS THE EFFECTIVENESS OF THE BUSINESS DEVELOPMENT ASPECTS OF THE SECTION 8 (A) MINORITY SMALL BUSINESS PROGRAM. I WOULD ESPECIALLY LIKE TO RECOGNIZE MR. REGINALD POWE, THE PRESIDENT OF DIALOGUE SYSTEMS, INC. LOCATED IN NEW YORK CITY.

THE SECTION 8 (A) PROGRAM WAS ESTABLISHED TO PROVIDE GUIDANCE TO MINORITY SMALL BUSINESS OWNERS IN ORDER TO MAKE THEIR FIRMS MORE COMPETITIVE IN THE MARKETPLACE. THE SURVEYS RECENTLY DISTRIBUTED AMONG THE PROGRAM'S PARTICIPANTS HAVE YIELDED USEFUL INFORMATION THAT CAN BE USED BY THIS COMMITTEE AND THE SMALL BUSINESS ADMINISTRATION TO BETTER ASSESS THE PROS AND CONS OF THE SECTION 8 (A) PROGRAM.

THE SURVEYS DEMONSTRATE BOTH POSITIVE ASPECTS AND PROBLEMS OF THE SECTION 8 (A) PROGRAM. ONE STATISTIC THAT PARTICULARLY STRUCK ME WAS THE RELATIVELY HIGH "OUT OF BUSINESS" RATE FOR FIRMS PARTICIPATING IN THE PROGRAM. THE

"OUT OF BUSINESS" RATE FOR THE FOUR YEAR PERIOD FROM 1982 TO 1986 RANGED FROM 21% TO 30%. OTHER STATISTICS FROM OTHER SOURCES DEMONSTRATE THAT 20% OF ALL NEW BUSINESSES FOLD WITHIN ONE YEAR. THESE SUGGEST THAT PARTICIPATION IN THE 8 (A) PROGRAM SHOULD BE EXTENDED.

A TROUBLING ASPECT OF THE 8 (A) PROGRAM THAT WE NEED TO EXAMINE IS THE APPARENT TENDENCY OF NEW GRADUATES OF THIS PROGRAM TO SELL OUT TO LARGER CORPORATIONS SOON AFTER GRADUATION. OUR COLLEAGUES ON THE HOUSE SMALL BUSINESS COMMITTEE ARE CONSIDERING MEASURES TO DISCOURAGE THE SALE OF COMPANIES THAT HAVE 8 (A) CONTRACTS OUTSTANDING. WHILE THERE MAY BE MERIT TO THESE PROPOSALS, WE MUST TREAD CAREFULLY IN THIS AREA. GOVERNMENT SHOULD NOT BE MANDATING POLICY IN PLACE OF BUSINESS DECISIONS MADE IN THE MARKETPLACE.

I LOOK FORWARD TO THE TESTIMONY OF OUR PANEL THIS MORNING AND TO THE SUGGESTIONS IT MIGHT HAVE TO MAKE THE SECTION 8 (A) PROGRAM MORE EFFICIENT AND EFFECTIVE IN ASSISTING MINORITY SMALL BUSINESS OWNERS. THIS IMPORTANT FIRST-HAND INSIGHT WILL BE VALUABLE TO THIS COMMITTEE IN ASSESSING THE PROGRAM'S EFFECTIVENESS.

THANK YOU, MR. CHAIRMAN.

STATEMENT OF ROBERT W. KASTEN, JR.

SMALL BUSINESS COMMITTEE HEARING ON GRADUATES OF 8(A) PROGRAM

MAY 12, 1987

THANK YOU, MR. CHAIRMAN. I WANT TO CONGRATULATE THE STAFF OF THE COMMITTEE ON THE FINE JOB THEY HAVE DONE IN COMPILING THE SURVEY OF THE GRADUATES OF THE SBA 8(A) MINORITY BUSINESS DEVELOPMENT PROGRAM THAT WE HAVE RECENTLY RECEIVED. THIS SURVEY SHOULD PROVE MOST HELPFUL AS A RESOURCE THAT WE CAN DRAW UPON IN OUR OVERSIGHT AND LEGISLATIVE RESPONSIBILITIES.

I WAS SURPRISED THAT SUCH INFORMATION AS WAS DEVELOPED HERE WAS NOT ALREADY AVAILABLE FROM SBA. IT REALLY SEEMS THAT A PROPER EVALUATION OF SUCH PROGRAMS WOULD REQUIRE THAT SBA BE MONITORING THEIR EFFECTIVENESS THROUGH SUCH SURVEYS. THE COMMITTEE STAFF'S UNDERTAKING WAS MORE INVOLVED THAN EVEN THEY HAD ORIGINALLY ENVISIONED DUE TO THE INACCURATE OR INCOMPLETE THAT THEY RECEIVED FROM SBA. I HOPE THAT SBA HAS LEARNED MORE FROM THIS SURVEY THAN JUST THE SUBSEQUENT PERFORMANCE OF THE 8(A) GRADUATES. THIS SHOULD ALSO RAISE QUESTIONS AS TO THE MONITORING THAT SBA IS UNDERTAKING RELATIVE TO ANY AND ALL OF THEIR PROGRAMS.

WITH RESPECT TO THE INFORMATION IN THE SURVEY ITSELF, I FIND IT HEARTENING THAT 70% OF THE GRADUATES ARE STILL IN BUSINESS. BUT BALANCED AGAINST THIS IS A FAIRLY POOR RATING AS TO THE BUSINESS DEVELOPMENT AND TECHNICAL SERVICES THAT SHOULD BE PROVIDED THROUGH THIS PROGRAM. IT IS NOT MEANT TO JUST BE A CONTRACTS ASSISTANCE PROGRAM, AND I HOPE SBA NOTES THIS CRITICISM.

I LOOK FORWARD TO THE TESTIMONY THAT WE ARE TO RECEIVE TODAY FROM BOTH ADMINISTRATOR ABDNOR AND THE GRADUATES THAT ARE TO APPEAR. THANK YOU, MR. CHAIRMAN.

STATEMENT OF SENATOR LARRY PRESSLER
BEFORE THE SENATE COMMITTEE ON SMALL BUSINESS
HEARING TO RELEASE COMMITTEE STUDY ON GRADUATES OF
SBA 8(A) MINORITY BUSINESS DEVELOPMENT PROGRAM
MAY 12, 1987

I WOULD LIKE TO BEGIN BY THANKING THE CHAIRMAN FOR CALLING THIS HEARING TODAY. I WOULD ALSO LIKE TO COMMEND THOSE COMMITTEE STAFF MEMBERS WHO I KNOW HAVE WORKED DILIGENTLY IN PREPARING THE SURVEY WE ARE RELEASING THIS MORNING. FINALLY, I WANT TO WELCOME OUR OLD COLLEAGUE, JIM ABDNOR, WHO WILL BE TESTIFYING BEFORE THE FULL COMMITTEE FOR THE FIRST TIME IN HIS NEW CAPACITY AS ADMINISTRATOR OF SBA.

LET ME BEGIN BY SAYING, IT IS VERY TROUBLING TO ME THAT THE COMMITTEE STAFF WOULD HAVE TO DEVOTE SUCH AN INORDINATE AMOUNT OF TIME AND EFFORT IN COMPILING THIS SURVEY. IT WOULD SEEM LOGICAL THAT THE SBA WOULD HAVE CONDUCTED THIS VERY KIND OF FOLLOW-UP WITH THE GRADUATES OF ITS 8(A) PROGRAM. INSTEAD, THE STAFF OF THIS COMMITTEE WAS FORCED TO PLOW NEW GROUND. IN A SENSE, THIS EXEMPLIFIES THE PROBLEMS THIS PROGRAM HAS SUFFERED FROM IN THE PAST.

WHEN THIS COMMITTEE HELD A HEARING ON EXTENDING THE 8(A) PROGRAM IN MARCH OF LAST YEAR, I RAISED AN ISSUE WHICH IS OF CONSIDERABLE CONCERN TO ME. THROUGHOUT THE PROGRAM'S HISTORY, THE SBA HAS HELD MOST OF THE SUBSTANTIVE AUTHORITY IN ITS CENTRAL

OFFICE. AT THE SAME TIME, SBA FIELD OFFICES HAVE BEEN CHARGED WITH THE DAY-TO-DAY RESPONSIBILITIES OF RUNNING THE PROGRAM. THIS HAS CAUSED CONSIDERABLE BUREAUCRATIC CONFUSION AND HAS SOMETIMES LED, AT LEAST IN SOUTH DAKOTA, TO A BREAKDOWN OF COMMUNICATIONS BETWEEN THE SBA CENTRAL AND FIELD OFFICES.

MR. CHAIRMAN, THIS IS WHAT I WAS SPEAKING OF WHEN I MENTIONED THAT THE FAILURE OF SBA TO COMPILE THE KIND OF INFORMATION WE ARE RELEASING TODAY EXEMPLIFIED THE PROBLEMS WHICH EXIST WITHIN THE PROGRAM. IT ALL BOILS DOWN TO A FUNDAMENTAL LACK OF COMMUNICATION.

LOOKING OVER THE REPORT, THERE ARE SEVERAL OTHER ISSUES WHICH CONCERN ME. I AM HOPEFUL THAT THESE MATTERS CAN BE ADDRESSED DURING TODAY'S HEARING. THE 8(A) PROGRAM WAS DESIGNED NOT ONLY TO PROVIDE HELP IN SECURING CONTRACTS, BUT TO PROVIDE MANAGEMENT ASSISTANCE AND TRAINING NECESSARY TO MAKE THE COMPANY VIABLE ONCE IT LEAVES THE PROGRAM.

UNFORTUNATELY, THE REPORT MAKES IT CLEAR THAT THE MINORITY SMALL BUSINESS COMMUNITY FEELS THE PROGRAM HAS FAILED IN AT LEAST THE LAST TWO OF THESE AREAS. WHILE 75 PERCENT OF THE RESPONDING FIRMS RATED THE GOVERNMENT CONTRACTS PORTION OF THE PROGRAM VERY HELPFUL, ONLY 24 PERCENT RATED MANAGEMENT ASSISTANCE AND 16 PERCENT RANKED TRAINING AS VERY HELPFUL.

ANOTHER AREA OF CONCERN IS THE FACT THAT MOST GRADUATES FELT THEY RECEIVED INADEQUATE AND, IN MANY CASES, NO TRANSITIONAL HELP. THERE IS AN EXTREMELY COMMON FEELING THAT PARTICIPATING FIRMS WERE MERELY DROPPED ONCE THEIR PARTICIPATION TERM EXPIRED. IF THE GOAL OF THIS PROGRAM ULTIMATELY IS TO HELP MINORITY OWNED SMALL BUSINESSES SUCCESSFULLY COMPETE IN THE PRIVATE SECTOR, IT STANDS TO REASON THAT WE NEED TO DO MORE TO PREPARE THEM FOR THE TRANSITION.

FINALLY, I AM CONCERNED THAT 84 PERCENT OF THE GRADUATES HAVE BEEN UNABLE TO RECEIVE SUBCONTRACTS FROM MAJOR PRIME CONTRACTORS. THE 8(A) PROGRAM IS DESIGNED TO HELP PARTICIPATING FIRMS UNDERSTAND THE GOVERNMENT CONTRACTING PROCESS. PROGRAM GRADUATES SHOULD HAVE GAINED GREAT EXPERIENCE IN DEALING WITH FEDERAL CONTRACTS. THIS, IN TURN, SHOULD MEAN THAT GRADUATING FIRMS WOULD BE LOGICAL CHOICES FOR SUB-CONTRACTS FROM THE GOVERNMENT'S PRIME CONTRACTORS. UNFORTUNATELY, THE REPORT INDICATES THAT THIS IS NOT THE CASE.

THE REPORT ALSO DOES AN EXCELLENT JOB OF PRE-SENTING THE GRADUATES' IDEAS FOR IMPROVING THE PROGRAM. ONE COMMON VIEW WAS THAT 8(A) CERTIFIED FIRMS SHOULD BE ALLOWED TO STAY IN THE PROGRAM LONGER THAN IS CURRENTLY ALLOWED. THIS IS SOMETHING WHICH HAS BEEN CONSIDERED IN THE PAST. IT IS ALSO BEING

CONSIDERED AS PART OF 8(A) REFORM LEGISLATION CURRENTLY BEING WORKED ON IN THE HOUSE OF REPRESENTATIVES. I AM CERTAIN THIS ISSUE WILL BE DEBATED MORE FULLY HERE TODAY.

ANOTHER IDEA I FOUND TO BE OF INTEREST WAS THE CONCEPT OF DIVIDING PARTICIPATION IN THE PROGRAM INTO PHASES. ONE OF THE RESPONDENTS BELIEVED THE PROGRAM SHOULD BE DIVIDED INTO THREE PERIODS. FIRST WOULD COME A TIME OF TRAINING AND SOME INITIAL CONTRACTING OPPORTUNITIES. THIS WOULD BE FOLLOWED BY A TIME OF CONCENTRATED CONTRACTING AND MARKETING OPPORTUNITIES. FINALLY, THE FIRM WOULD ENTER A PRE-PLANNED "PHASE-IN-TO-GRADUATION" PERIOD WHICH WOULD ALLOW SUFFICIENT TIME TO REPLACE 8(A) CONTRACTS AND TO PREPARE FOR LIFE OUTSIDE THE 8(A) PROTECTIVE UMBRELLA.

THIS COMMITTEE REPORT WILL PROVIDE US WITH MUCH OF THE INFORMATION NECESSARY TO GET THE 8(A) PROGRAM ON THE TRACK IT WAS INTENDED TO TRAVEL. I AGAIN WANT TO COMMEND THE COMMITTEE STAFF WHO PUT THIS REPORT TOGETHER. THEIR EFFORTS ARE MOST APPRECIATED. I ALSO WANT TO THANK THE WITNESSES FOR TAKING THE TIME TO BE WITH US TODAY. I LOOK FORWARD TO HEARING FROM YOU.

The CHAIRMAN. Thank you very much, Senator Dixon.

And with that we call our first witness, the new Administrator of the Small Business Administration, Senator Jim Abdnor. Jim, welcome this morning and please proceed.

STATEMENT OF HON. JAMES ABDNOR, ADMINISTRATOR, U.S. SMALL BUSINESS ADMINISTRATION, ACCOMPANIED BY WILFREDO J. GONZALEZ, ASSOCIATE ADMINISTRATOR, MINORITY SMALL BUSINESS CAPITAL OWNERSHIP DEVELOPMENT PROGRAM, AND EDWARD C. NEAL, DEPUTY DIRECTOR, MSB/COD SMALL BUSINESS CAPITAL OWNERSHIP DEVELOPMENT PROGRAM

Mr. ABDNOR. Thank you. It is good to be back, even if I am on the other side. It is always nice to get back and be around your old friends.

First, let me thank the Chairman for taking the initiative to conduct the national survey of firms that have graduated from the Section 8(a) Minority Small Business Program. I reviewed the survey and must tell you that I agree with many of the recommendations covered in the Committee's survey.

I was encouraged to see that most of the 461 graduated 8(a) firms contacted, most of the firms have remained in business and are doing well. Of the 177 firms that responded to your survey, only 18 are no longer in business.

Considering that the minority business program was originally created to assist firms that had potential to survive and grow, there is always the possibility that some may fail.

It has been said, with some justification, that SBA only provides contracts, and that we fall short in providing business development. SBA has not been as aggressive as we should have been in fulfilling our mandate to provide management and technical assistance. I intend to see that we do a better job in the future.

It appears from the respondents that they felt that SBA has not complied with P.L. 95–507 nor has the Minority Business Development Administration complied with Executive Order 11625 in providing management and technical assistance either prior to or after graduation. This definitely needs to be addressed and corrected without delay.

Our fiscal year 1988 budget proposal to consolidate the activities of the Minority Business Development Agency (MBDA), with SBA's Minority Small Business/Capital Ownership Development (MSB/COD) Program, is designed to address part of this problem by assuring that firms participating in and graduating from the 8(a) Program are aware of and do have access to the Minority Business Development Centers Network.

The Minority Business Development Center in turn would be made even more responsive to 8(a) firms needs under this proposal.

I was encouraged to see that while a few respondents said that graduation from the program had a devastating effect on them, most firms did not go out of business and were becoming increasingly competitive in the private sector.

I strongly support the recommendation in the survey that relates to political and personal bias. My personal commitment shall be

that I will not be a party to political influence in the 8(a) decision-making process.

Each case will be determined solely on its own merits. I have charged the associate administrator to continue his efforts in developing objective procedures for implementing the 8(a) Program.

I intend to emphasize the need to establish a procedure to tract 8(a) firms through the post-graduation period and to establish a system for better evaluation of the program, both internal and external.

It is evident that there is a mood in Congress for legislative changes in the program, and I share your concern and hope that by working together we can bring about necessary and prudent changes.

I look upon this survey as a starting point, and a very significant contribution to the process. Mr. Chairman, you know as well as I do that this has been a much troubled and difficult program to administer.

I intend to improve this program and make sure that it fulfills its mission in an effective and efficient manner. Anything less is unacceptable. We are committed to see the program succeed.

As I have stated before, teamwork between the Congress and SBA is essential to bringing about much needed changes. This is not the first time 8(a) has been examined by Congress and probably will not be the last.

I have to believe that we can make the 8(a) Program work better than it has in the past by working together. And again, I look upon this survey as a starting point, and I thank the Committee for the opportunity to make these observations.

[The prepared statements of Messers Abdnor and Gonzalez follow:]

SBA U.S. Small Business Administration Washington, DC 20416

STATEMENT OF

JAMES ABDNOR

ADMINISTRATOR

U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE

COMMITTEE ON SMALL BUSINESS

UNITED STATES SENATE

MAY 12, 1987

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I WANT TO THANK THE CHAIRMAN FOR TAKING THE INITIATIVE TO CONDUCT A NATIONAL SURVEY OF FIRMS THAT HAVE GRADUATED FROM THE SECTION 8(a) MINORITY SMALL BUSINESS PROGRAM. I HAVE REVIEWED YOUR SURVEY AND WILL HAVE TO TELL YOU THAT I AGREE WITH MANY OF THE RECOMMENDATIONS COVERED IN THE COMMITTEE'S SURVEY.

I WAS ENCOURAGED TO SEE THOUGH THAT OF 461 GRADUATED 8(a) FIRMS CONTACTED BY YOUR COMMITTEE MOST OF THE FIRMS HAVE REMAINED IN BUSINESS AND WERE DOING WELL. OF THE 177 FIRMS THAT RESPONDED

TO YOUR SURVEY 18 WERE NO LONGER IN BUSINESS. CONSIDERING THAT THE MINORITY BUSINESS PROGRAM WAS CREATED TO ASSIST FIRMS THAT HAD THE POTENTIAL TO SERVICE AND GROW THERE IS ALWAYS THE POSSIBILITY THAT SOME MAY FAIL.

IT HAS BEEN SAID, WITH SOME JUSTIFICATION, THAT SBA ONLY PROVIDES CONTRACTS, AND THAT WE FALL SHORT IN PROVIDING BUSINESS DEVELOPMENT. SBA HAS NOT BEEN AS AGGRESSIVE AS WE SHOULD HAVE BEEN IN FULFILLING OUR MANDATE TO PROVIDE MANAGEMENT AND TECHNICAL ASSISTANCE - AND I INTEND TO SEE THAT WE DO A BETTER JOB IN THE FUTURE.

IT APPEARS FROM THE RESPONDENTS THAT THEY FELT THAT SBA HAS NOT COMPLIED WITH P.L. 95-507 NOR HAS MINORITY BUSINESS DEVELOPMENT ADMINISTRATION COMPLIED WITH EXECUTIVE ORDER 11625 IN PROVIDING MANAGEMENT AND TECHNICAL ASSISTANCE EITHER PRIOR TO OR AFTER GRADUATION. THAT DEFINATELY NEEDS TO BE ADDRESSED AND CORRECTED WITHOUT DELAY.

OUR 1988 BUDGET PROPOSAL TO CONSOLIDATE THE ACTIVITIES OF THE MINORITY BUSINESS DEVELOPMENT AGENCY (MBDA) WITH SBA's MSB/COD PROGRAM, IS DESIGNED TO ADDRESS PART OF THIS PROBLEM BY ASSURING THAT FIRMS PARTICIPATING IN, AND GRADUATING FROM, THE 8(a) PROGRAM ARE AWARE OF, AND HAVE ACCESS TO, THE MINORITY BUSINESS DEVELOPMENT CENTERS NETWORK. THE MINORITY BUSINESS DEVELOPMENT CENTERS, IN TURN, WOULD BE MADE EVEN MORE RESPONSIVE TO 8(a) FIRMS NEEDS UNDER THIS PROPOSAL.

I WAS ENCOURAGED TO SEE THAT WHILE SOME RESPONDENTS SAID THAT GRADUATION FROM THE PROGRAM HAD A DEVISTATING EFFECT ON THEM, MOST FIRMS SAID THEY WOULD NOT LIKELY GO OUT OF BUSINESS AND WERE BECOMING COMPETITIVE IN THE PRIVATE SECTOR.

I ESPECIALLY SUPPORT THE RECOMMENDATION IN THE SURVEY THAT RELATES TO POLITICAL AND PERSONAL BIAS. TO THIS END MY PERSONAL COMMITMENT SHALL BE THAT I WILL NOT BE A PARTY TO POLITICAL INFLUENCE IN THE 8(a) DECISION MAKING PROCESS. EACH CASE WILL BE DETERMINED SOLELY ON ITS MERITS. I HAVE CHARGED THE ASSOCIATE ADMINISTRATOR TO CONTINUE HIS EFFORTS IN DEVELOPING OBJECTIVE PROCEDURES FOR IMPLEMENTING THE 8(a) PROGRAM.

I INTEND TO EMPHASIZE THE NEED TO ESTABLISH A PROCEDURE TO TRACK 8(a) FIRMS FROM POST GRADUATION AND TO ESTABLISH A SYSTEM FOR BETTER EVALUATION OF THE PROGRAM, BOTH INTERNAL AND EXTERNAL.

IT IS EVIDENT THAT THERE IS A MOOD IN CONGRESS FOR LEGISLATIVE CHANGES IN THE PROGRAM. I SHARE YOUR CONCERN AND HOPE THAT BY WORKING TOGETHER, WE CAN BRING ABOUT NECESSARY AND PRUDENT CHANGES.

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I LOOK UPON THIS SURVEY AS A STARTING POINT AND A VERY SIGNIFICANT CONTRIBUTION TO THE PROCESS.

MR. CHAIRMAN, YOU KNOW AS WELL AS I DO THAT THIS HAS BEEN A MUCH TROUBLED AND DIFFICULT PROGRAM TO ADMINISTER. I INTEND TO IMPROVE THIS PROGRAM AND MAKE SURE THAT IT FULFILLS ITS MISSION IN AN EFFECTIVE AND EFFICIENT MANNER. ANYTHING LESS IS UNACCEPTABLE! WE ARE COMMITTED TO SEE THE PROGRAM SUCCEED. AS I HAVE STATED BEFORE, TEAMWORK BETWEEN THE CONGRESS AND SBA IS ESSENTIAL TO BRING ABOUT THE MUCH NEEDED CHANGES.

AGAIN, I LOOK UPON THIS SURVEY AS A STARTING POINT. AND I THANK THE COMMITTEE FOR THE OPPORTUNITY TO MAKE THESE OBSERVATIONS.

SBA

U.S. Small Business Administration
Office of the Administrator
Washington, DC 20416

STATEMENT OF

WILFREDO J. GONZALEZ

ASSOCIATE ADMINISTRATOR FOR

MINORITY SMALL BUSINESS & CAPITAL OWNERSHIP DEVELOPMENT

U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE

COMMITTEE ON SMALL BUSINESS

UNITED STATES SENATE

MAY 12, 1987

THANK YOU FOR ALLOWING ME THE OPPORTUNITY TO COMMENT ON THE COMPLETED NATIONAL SURVEY OF GRADUATED 8(a) FIRMS. I AM FAMILIAR WITH THE LONG, TEDIOUS HOURS THAT WERE SPENT BY THE SENATE STAFF IN COMPILING THE DATA AS WELL AS THE FRUSTRATIONS ENDURED IN DEVELOPING THE SURVEY PROCESS AND OVERCOMING THE MAILING ADDRESS PROBLEMS I WANT TO CONGRATULATE THOSE WHO WERE INVOLVED WITH IT FOR A JOB WELL DONE. THOUGH NOT AN EASY TASK I KNOW IT WAS WORTHWILE AND WILL SERVE AS BUILDING BLOCK TOWARDS A BETTER 8(a) PROGRAM.

I WANT TO ECHO THE WORDS OF ADMINISTRATOR ABDNOR: FIRST, IN TERMS OF WHAT APPEARS TO BE A HIGH SURVIVAL RATE OF FINANCIALLY STABLE GRADUATED 8(a) FIRMS AND, SECOND, PERHAPS MORE IMPORTANTLY, AS PERTAINS TO OUR COMMITMENT TO MAKE THE 8(a) PROGRAM MORE EFFECTIVE AND EFFICIENT.

IN TERMS OF THE LATTER WE ARE LOOKING FORWARD TO THE MERGER OF THE MBDA AND OUR MSB PROGRAM IN ORDER TO MAXIMIZE RESOURCES TOWARDS THE GOAL OF BETTER BUSINESS DEVELOPMENT. WE ARE PRESENTLY WORKING TOWARDS STRUCTURING THIS MERGER AND ARE CONFIDENT THE RESULT WILL INCREASE OUR EMPHASIS IN THE AREA OF MANAGEMENT AND TECHNICAL ASSISTANCE THROUGH BETTER UTILIZATION OF MANAGEMENT RESOURCES. REMEMBER THAT MINORITY BUSINESS DEVELOPMENT IS A COMPLEX CONCEPT.

SBA'S FIRST EXPERIENCE WITH MINORITY BUSINESS DEVELOPMENT OCCURRED IN THE 1960's WHEN SBA THOUGHT THAT MONEY WAS THE ONLY TOOL NEEDED TO EFFECT MINORITY BUSINESS DEVELOPMENT. WE WERE SOON CONVINCED OTHERWISE. STARTING IN THE 1970's MINORITY BUSINESS DEVELOPMENT EFFORTS FOCUSED ON MONEY AND MARKET (CONTRACTS) AS THE NECESSARY TOOLS.

AS WE MOVE THROUGH THE 1980's IT IS EVIDENT THAT IN ORDER FOR FULL DEVELOPMENT TO TAKE PLACE IT IS NECESSARY FOR A BUSINESS CONCERN TO HAVE ADEQUATE AND BALANCED ACCESS TO MONEY MARKET AND MANAGEMENT. IT IS ALSO EVIDENT THAT WHILE CONCENTRATING ON MONEY

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AND MARKET WE HAVE NOT GIVEN THE NECESSARY ATTENTION TO MANAGEMENT AND TECHNICAL ASSISTANCE. WE ACKNOWLEDGE THIS DEFICIENCY AND INTEND TO ENHANCE OUR EFFORTS TO IMPROVE THE DELIVERY OF MANAGEMENT AND TECHNICAL ASSISTANCE SERVICES.

AS RELATES TO POLITICAL AND PERSONAL BIAS AS PERCEIVED BY THOSE WHO REPLIED TO THE SURVEY I WANT TO SAY THAT IT IS DIFFICULT TO COMMENT ON AN ENVIRONMENT THAT COULD HAVE BEEN PREVALENT IN YEARS PAST. HOWEVER, I CAN ASSURE THAT PRESENT PERCEPTIONS ARE JUST THAT AND THE FACT IS THAT I TOLERATE NO POLITICAL OR PERSONAL PRESSURES TO AFFECT EITHER THE APPLICATION PROCESS OR ANY CONTRACT AWARDS. MY CREDIBILITY IS MORE IMPORTANT THAN MY JOB. WE HAVE TAKEN STEPS IN DEALING WITH THIS PERCEPTION BY MAKING CERTAIN THAT THOSE INVOLVED WITH THE 8(a) PROGRAM STRICTLY ADHERE TO EXISTING RULES AND REGULATIONS AND SOP.

AS PERTAINS TO THE PROGRAM EVALUATION OR THE LACK THEREOF, MY STAFF IS PRESENTLY WORKING TOWARDS DEVELOPING A MORE EFFECTIVE INTERNAL AND EXTERNAL TRACKING SYSTEM.

THE POLICIES AND PROCEDURES WHICH GOVERN THE OPERATION OF THE 7(j) PROGRAM WERE TOTALLY REVAMPED OVER THE PAST 24 MONTHS. THE PROGRAM NOW ADDRESSES THE DEVELOPMENTAL NEEDS OF MINORITY FIRMS AS IDENTIFIED JOINTLY BY SBA'S BUSINESS OPPORTUNITY SPECIALIST (A TITLE WE ARE CONSIDERING CHANGING TO BUSINESS DEVELOPMENT SPECIALIST TO FUTHER REINFORCE THE PRINCIPAL OF THE PROGRAM) AND THE FIRMS' OWNER/MANAGERS.

WE HAVE DEVELOPED A SYSTEM WHICH AFFORDS OUR CLIENTS SEEKING MANAGEMENT AND TECHNICAL ASSISTANCE AN EASIER OPPORTUNITY TO VERIFY THE SERVICE THEY RECEIVE AND EVALUATE THE QUALITY OF THESE SERVICES.

THIS NEW MONITORING SYSTEM IS A TREMENDOUS STEP FORWARD IN REORDERING THE ACCOUNTABILITY RELATIONSHIP OF OUR 7(j) CONSULTING FIRMS -- FROM SBA, WHO PAYS FOR THESE SERVICES, TO THE CLIENT WHO RECEIVES AND MUST BENEFIT FROM THESE SERVICES. WE HAVE ALSO INITIATED A PROGRAM WEREBY 8(a) FIRMS IN THEIR TRANSITIONAL YEARS MAY IDENTIFY THEIR OWN CONSULTANT FOR SPECIALIZED ASSISTANCE ON A SHARED COST BASIS. IN 1988 WE ARE PROPOSING THAT THE MINORITY BUSINESS DEVELOPMENT CENTERS PROVIDE THIS SERVICE.

WE ARE ALSO EVALUATING DIFFERENT METHODS TO ENSURE THAT THE PROGRAM PARTICIPANTS UNDERSTAND THE DEVELOPMENTAL NATURE OF THE MINORITY BUSINESS AND CAPITAL OWNERSHIP DEVELOPMENT PROGRAM; THAT THEY REALIZE THAT THE 8(a) CONTRACTING PROGRAM IS ONLY ONE PART OF A PROGRAM THAT ADDRESSES THEIR NEEDS FOR MONEY, MANAGEMENT AND MARKETS.

FINALLY, I WISH TO INDICATE THAT WE IN MSB ARE PRESENTLY REVIEWING OUR ACT AND RULES AND REGULATIONS IN VIEW OF THE ISSUES RAISED BY THE SURVEY.

THANK YOU

The CHAIRMAN. Thank you very much. Senator Abdnor, first of all, do you have a plan right now as to how you would implement the recommendations that you have stated you support?

Mr. ABDNOR. Right now, we could not immediately create a new program, although we expect to have an operational program by October, the beginning of the new fiscal year.

But at this moment, we do not have a plan to incorporate the MBDA and the MSB/COD Programs into one.

Because these are two separate agencies now, it may take additional legislation before they could be combined.

With your input and our input, we can do this. Although it is not an easy task to wipe out all corruption, we are going to do everything possible to make sure those instances do not happen again.

The 8(a) Program is not something that just came up this year, it is something that has been in effect and tampered with in the past. But we are going to bring the two groups together, and eventually we will work through this. We are looking at the legislation from here that and we are looking at some thoughts of our own, and we are going to be happy to work with you.

The CHAIRMAN. Have you designated anybody over at SBA yet to begin implementing these changes?

Mr. ABDNOR. We have a committee, the gentleman to my right, Mr. Gonzalez, who is the administrator of this program, and we have our legal staff working on it.

The CHAIRMAN. Mr. Gonzalez, how long have you been head of this program?

Mr. GONZALEZ. It will be 2 years in July.

The CHAIRMAN. Have you begun to make any plans for changes in the programs?

Mr. GONZALEZ. Yes. We have looked at the survey. We have looked at some of the bills that are being introduced. We have been not only reacting to them but also having meetings.

We just returned from a meeting in Annapolis where we came up with some initiatives of our own to deal with some of the problems that the program has.

The CHAIRMAN. What are some of those initiatives?

Mr. GONZALEZ. Well, one of them is the self-evaluation in terms of providing management and technical assistance to these firms by the client of 7(j) funding. It is something that we have not done in the past.

It is the opportunity for the client to tell us whether in fact they received the service or not, and if they received the appropriate service or not.

The CHAIRMAN. You know, I think it is very important, when you send somebody from SBA or in this program out to give technical assistance to some firm, it is very important that you get an honest evaluation from that firm as to how well they think they were served.

It occurs to me that a lot of technical assistance is offered by somebody that does not have the foggiest idea about that particular business or how it ought to be run. I could sit here and cite case after case of things that have been brought to my attention about where the SBA or some subsidiary program has sent somebody into

a business and they do not know their rear from a hot rock about that business.

I get calls constantly about that, where we hire somebody and they hold themselves out as an expert in the field, and the truth of the matter is they do not know anything about how to tell that company to run their business, whether it is setting up their books or how to market their product or how to manufacture that product.

That is one of the things that really disturbs me as much as anything else, completely aside from the problems that we were talking about here this morning.

Did you see this Wall Street Journal article on this program? Have you not seen this? This was yesterday's Wall Street Journal.

Mr. ABDNOR. No, we did not.

The CHAIRMAN. Let me read a part of this to you and tell you how unsettling this is to me.

It says:

> Big businesses often get the benefits of such non-competitive contracting. The reason? Some minority-owned businesses, rather than trying to make it on their own, quickly sell out to major corporations after receiving the lucrative graduation contracts.
>
> For example, Amex Systems, Inc, a minority-owned electronics company in Hawthorne, CA, obtained 15 Federal no-bid contracts totaling more than $54 million in the 2 months before it graduated from the SBA program in October, 1984.

Now that is 15 contracts totaling $54 million.

A month later Amex owners sold the company to giant Allied Bendix, Inc., which is now reaping the benefits of the contracts. Amex is not an isolated case.

Both Planning Research Corp., a large data systems company in McLean, and Comarco, Inc, a big supplier of computer-related products in Anaheim, CA, also bought minority-owned companies that were the beneficiaries of millions of dollars of SBA-approved no-bid contracts.

How would you deal with that, Mr. Gonzalez?

Mr. GONZALEZ. Well, I think the way we would deal with it is the way we have dealt with it in the past.

The cases that you cite are about 3 or 4 years old in terms of graduation. I think we have learned from our own experiences and we are trying to prevent any company from loading up in their last couple of years of participation in the FPPT, with the intent to sell.

The second thing is that we are presently looking at whether we should initiate some regulations which would limit the amount of contracts that a firm could undertake in their last year of participation.

The CHAIRMAN. Why is it you load these things up in the so-called graduation time, to see them through the transition phase, being in the program and getting out of the program? Why would you load somebody up here with 15 contracts, knowing that they were going out of the program totaling $54 million? That is a lot of cash.

Mr. GONZALEZ. Well, that practice is not being done anymore. That happened before I came on board. I understand that there was a concept of a so-called "graduation gift" or a "loading up" at the end of their FPPT.

The CHAIRMAN. Were these other two cases before you came on board too?

Mr. GONZALEZ. Yes, sir.

The CHAIRMAN. Do you know of any instances similar to that since you came on board, where companies have sold out rather than perform the contract?

Mr. GONZALEZ. No.

The CHAIRMAN. Why would it not be a very simple solution to simply say, when you give these people these no-bid contracts, that they can not be sublet, assigned, or become any part of a merger or sell out of that company?

Mr. GONZALEZ. Well, that is what we are looking at. But at present the regulations and the laws do not prohibit the sale of 8(a) contracts or options unless new regulations are instituted to prohibit such practices.

The CHAIRMAN. You are prohibited from saying that they have to perform the contract or surrender it?

Mr. GONZALEZ. Yes, sir.

The CHAIRMAN. Is that a rule? What rule is that?

Mr. GONZALEZ. I do not know which rule it is to prohibit. We cannot tell a contractor that he cannot sell his business. We cannot inhibit or prohibit the sale of a contract.

We do have what is called a novation process, which allows us to look at any modifications, options or novations in a contract and make a determination. But those limitations are minor. We are not in the position to stop the sale of a company.

The CHAIRMAN. Well, I am going to have staff check that out. I cannot imagine a contractor who has given somebody a bird nest on the ground not having some say-so over who performs that contract.

This is a very special program. We are trying to promote minority-owned businesses, and we are giving them a superb advantage. And to say that they can take advantage of us while we are trying to promote this program, a very laudable one in my opinion, and while we are operating in good faith and trying to help businesses, to say that they can turn around and literally defraud the Government does not make any sense.

I cannot imagine a law or rule that would prohibit us from putting such provisions in a contract. When you are talking about contracts, all agents are free to contract almost anything they want to.

I know in this particular case, where apparently SBA tried to terminate the Amex contracts . . . Is that correct? Here, let me read this paragraph from this article.

> The agency, SBA, concluded that when Amex signed a memorandum of understanding in 1984 to merge with Allied, the smaller company had lost its independence and no longer qualified as a small business. Consequently the agency found that 15 contracts totaling $71 million were improperly awarded and voidable.
>
> Allied appealed the decision and in late 1985 SBA and the company reached a settlement. The agency withdrew its objections to 6 of the 15 contracts, but held that the remaining 9 could be voided at the discretion of the contracting agencies.
>
> However, none of the contracting agencies, which included the Army, the Air Force, and NASA, opted to revoke any of the nine contracts.

But my point is, apparently they had the right to do it, but you gave them that option of doing it and they chose not to. Is that correct?

Mr. GONZALEZ. Yes, however, I am not familiar with the specifics.

The CHAIRMAN. Was this all resolved before you came on board?

Mr. GONZALEZ. Yes, sir.

The CHAIRMAN. Well, I have two thoughts about this, and of course, I think what this Committee is going to ask you to do, Mr. Gonzalez and Senator Abdnor, is to submit to us a plan forthwith about how you plan to administer this program to eliminate abuses, to make the program more viable, and within the intent of Congress.

If you are going to give these people a no-bid contract as they phase out of the program and graduate, I hope you would include in that plan, unless you are absolutely prohibited by law from doing so, either of two things. You ought to either provide for bidding on those contracts between two or more, and second, you ought to say, you must perform this contract, and you may not assign it or sublet it.

You know, another complaint that we have to deal with here, we are not to it yet, is that white-owned operations are setting up-front organizations of minority businesses when there really is no such business. They are simply setting it up in order to get these contracts.

And there is actually no minority business. And that is another abuse, of course, that we hear a lot about around here.

Now let me tell you something, it is not all bad. I was speaking to a group of, I forget the name of it, but essential minorities who work in the utility industries around the Country, electrical and gas utilities, and this Joshua Smith, who is head of Maxima, was awarded their outstanding citizen award that night. He is a most impressive guy with a most impressive business. And he is a product of this business.

He says he might have made it without the business, but he certainly got a lot of help from it and believes strongly in the program. He is quoted in the New York Times yesterday as saying he hopes that our focus on Wedtech will not keep a good program from going forward.

Mr. ABDNOR. I would like to say I agree. I know you hear about the bad ones but there are hundreds that are very successful.

We do not like the bad ones either. We have been talking about it and as I said earlier I do not know if we can suddenly come up with a whole new game plan that will cure all evils. But we can do some things and hopefully work with you people on some kind of a program.

On the House side they have proposals for competition. I do not know how you feel about that here. Right now, you know, there is no bidding, there is no competition in the 8(a) Program.

Some people think there ought to be competition, but then you get away from the idea of minority participation that you intended to help get started, there are some problems.

Like I said, I do not think we have a real quick answer to the things that you are talking about here, but surely we could be doing something about it and then work for a long term program. I would like to think that we are going to run a good program that is

honest, above board and helps minorities, and at the same time puts people to work.

The CHAIRMAN. When I first came to the Senate, Hubert Humphrey used to tell me the bureaucrats ruin all the good programs.

He said we had perfectly good causes and good reasons to set up some of these programs, and the bureaucrats do such a lousy job of administering, and giving them a bad name, and the most laudable program in the world comes under intense scrutiny and criticism, and the first thing you know, everybody wants to torpedo it.

Food stamps being a classic case. I am a great believer in food stamps. But I am telling you that is a hard position to defend in Arkansas.

Mr. ABDNOR. I think a lot of things come into play. People will come in and give you a sob story so you try to correct one thing and the first thing you have is a maze of regulations and problems.

The CHAIRMAN. Well, there are many things about this program, when you look at it and at this report that Senator Weicker has had prepared, that just scream for an invitation to fraud.

We are here today to make sure that we eliminate that. Senator Weicker.

Senator WEICKER. Thank you very much, Mr. Chairman. The survey responses point out that most of the firms in the program are still in service industries and very few are in manufacturing.

What is the current industry distribution of firms in the portfolio?

Mr. ABDNOR. This is the start of National Small Business Week. I have a lot of people here from the office. Do you suppose I could slip away?

Senator WEICKER. There was a day when you could ask me that question. On the other hand the mantle of power has shifted. So your question is better addressed to Senator Bumpers.

The Administrator indicates that he has to leave the room, ostensibly to meet the small business groups. [Laughter.]

That is the reason he humbly requests of the Chair that he leave.

The CHAIRMAN. With this one last little admonition. We need a plan forthwith on the transfer of the Commerce Department's Minority Business Development Agency over to SBA.

Can you give us a timeframe in which you think you will have that plan completed?

Mr. ABDNOR. Now we are talking about the transfer.

The CHAIRMAN. We need to get that agency over into SBA and know where we are going before we finish any revisions of the 8(a) Program.

Senator WEICKER. I think, Jim, what the Chairman is saying is that there is an urgency to getting this thing on the right track.

Mr. ABDNOR. We are going to have to do it.

Senator WEICKER. The only reason why this report was delayed as long as it has been delayed, or why it is coming out now, has nothing to do with Wedtech. It is the fact that because the Small Business Administration did not keep appropriate records as to what happened to persons that were in the 8(a) Program.

It has been some heck of a job to dig back and find out exactly what did take place with firms that graduated from the program. Now that we have that information in hand, we could easily get

overwhelmed, if you will, by the circumstances of the day, unless we move and we move promptly.

I think both in terms of the transfer from Commerce and in terms of the rules governing the administration of the program, as well as some of the other things floating around, this is not something that we are going to be able to take our time and cross our fingers on.

We are going to have to move, and move promptly. We have the facts in hand; we have the good parts; we have the bad parts; and we have the abuses. Thus, there is no reason why we cannot move. As you well know, the House is moving even now to reform the 8(a) Program.

Mr. ABDNOR. That is right. As a matter of fact, we are going to offer some thoughts when we meet with OMB next week. One thing I learned in this business is you have to work with OMB on it too. I do not know how far away we are from giving you a complete plan.

I know one thing. There are a lot of things we have to deal with. For example, some people are very concerned about everybody having a job in the end. We do not need all the people so what do you do with the others.

We have to in some way bring the MBDA together with MSB. Whether we run them separately for a while, or together, we must do a good job of running them.

We will have something. I do not know if I can say that in 3 weeks we could give you a complete plan, but we will definitely have something.

The CHAIRMAN. Jim, we need to get cracking on that.

Mr. ABDNOR. Mr. Gonzalez can probably tell you more where he is on this at the moment.

Mr. GONZALEZ. I think the Senator is being humble because it is the first time in 2 years that I have seen the administrator of the agency sit down at actual task forces that have been working on the merger plan.

We are probably at draft number 4 in regards to our plan. It is our intention to discuss that plan with the OMB next week.

And then depending on the outcome of that meeting and depending on some of the reactions from OMB, hopefully we will be in a position in a quick turnaround time to sit down with the Senate Committee staff and give them a presentation.

I think I would like to add that in regards to your question for a plan on some of the other concerns that you have, not only would we be in a position to present the plan in a short period of time, but also to make a presentation to the Committee staff.

I think that it is important that we be allowed to come in and talk to them and get some reaction.

The CHAIRMAN. We welcome that. With those little admonishments, Senator, you are excused.

Mr. ABDNOR. Thank you.

Senator WEICKER. Are you going to get me the facts for the record on the industry distribution of the firms?

Mr. GONZALEZ. Yes. This is Ed Neal, my Deputy Director, MSB/COD.

Senator WEICKER. Twenty-five percent?

Mr. NEAL. Yes. Seventy-five percent will be service and construction.

Senator WEICKER. How much is the general category janitorial?

Mr. NEAL. Housekeeping, services, such as janitorial window-washing, and so forth, would be about 30 percent. There is a heavy portfolio in professional services.

Senator WEICKER. Professional services such as——

Mr. NEAL. Such as consulting services, engineering services, ADP, which a number of people may refer to as high technology.

Mr. GONZALEZ. We have the exact figures, Senator, because I have used them in the past. But we do not have them available at this moment.

Senator WEICKER. A recurring, perennial problem is obtaining contracts to match the capability of firms in the program. Congress tried to address that problem in part by enacting the 8(a) Pilot Procurement Program.

Under P.L. 99-567, Congress reauthorized the Pilot Program and recently the President designated the Department of Transportation as the pilot agency. What is the current status of that program? Have any contracts been awarded?

Mr. GONZALEZ. No. Under the present 6 month period that has been designated for DOT, through the end of the fiscal year, we do not have—a contract has not been awarded.

We have been working with DOT on the inter-agency agreement so that all parties maintain the particulars regarding the interagency agreement.

It is our conclusion that part of the concern that the Congress had regarding the implementation of the Pilot Program in the past was not so much that the interagency agreement was not a good one, but rather that it was not being addressed by both parties.

But we want to make sure that we address the intent of Congress in carrying out the Pilot Program.

The CHAIRMAN. Gentlemen, thank you very much.

[Material follows:]

QUESTIONS FROM SENATOR LOWELL WEICKER, JR.

1. Q. Going back to Committee oversight hearings in 1983, one of the concerns raised was the length of time it takes to get a firm certified for the 8(a) program. What progress has SBA made in reducing the time of certification for new program entrants?

   A. We have taken measures to reduce the time involved in the application process. For example, our recently published operating procedures have established application processing time frames. Further, high 8(a) volume district offices such as the Washington District Office are establishing organizational units that will devote all of their time to application processing.

   We have also established a requirement that generally a program applicant must have been in business for two full years. This requirement will result in program participation of those firms that have the greatest potential for success.

2. Q. The survey responses point out that most of the firms in the program are still in service industries and very few were in manufacturing. What is the current industry distribution of firms in the portfolio?

   A. As of March 30, 1987, firms in the 8(a) program were comprised of the following:

manufacturing	--	15.2 percent
professional services	--	17.4 percent
nonprofessional services	--	32.6 percent

   Q. Is there any emphasis being placed on getting more manufacturing firms in the program?

   A. No. We respond to market place, demand and preference, although we certainly encourage manufacturing.

3. Q. A recurring and perennial problem is obtaining contracts to match the capability of firms in the program. The Congress tried to address that problem in part by enacting the 8(a) Pilot Procurement program. At the hearing you indicated that you were negotiating an Interagency Agreement with DOT in order to implement the pilot program. When do you expect to enter into the agreement and begin selecting contracts for portfolio firms?

   A. The Interagency Agreement between SBA and DOT is now in the review process. SBA anticipates a signed agreement on or about June 10, 1987, at which time the Pilot Program implementation for FY 1987 can begin.

QUESTIONS BY SENATOR ALAN J. DIXON

1. Q. Respondents to the survey criticized the business development aspects of the 8(a) program. What can be done to improve the management and technical assistance aspect of the 8(a) program?

A. Over the past 24 months the 7(j) Management and Technical Assistance (M&TA) Program has undergone a complete revision. Basic policy changes that have taken place are as follows:

1. A client verification and evaluation report form has been developed and approved by OMB. 7(j) clients may now verify the services they receive and evaluate the efficiency of the services provided.

   The result of this new monitoring tool is the shift of accountability on the part of service providers from the SBA to the clients served. A service provider that doesn't receive 90 percent verification of services provided and 85 percent of services rated satisfactory or better is subject to have its cooperative agreement cancelled.

2. The identification of 7(j) M&TA needs are to be client generated to ensure that services provided meet the self-identified needs of the 7(j) client.

3. A special subsidized 7(j) program has been established for 8(a) transitioning firms which permits these firms to identify their own consultants for specialized consulting needs. In these cases SBA will pay no more than 50 percent of the cost.

   In many instances the consulting firms under agreement to SBA cannot provide the highly specialized M&TA required by our emerging firms. This approach permits the agency to provide this highly specialized M&TA on a shared cost basis.

4. We have delegated the technical reviews of proposals submitted under our competitive announcement, to provide services to our 7(j) clients, to our regional offices. This permits those closer to the service needs to evaluate the providers rather than an evaluation in the Central Offices with no knowledge of the proposers.

5. We have established Regional Discretionary 7(j) Funds Pools so the field offices may identify particular 7(j) management and technical services needed to address generic needs of their 8(a) firms, such as seminars, trade fairs, etc.. Heretofore, these services were provided by the Central Office with little input from the field offices.

2. Q. Many respondents felt that tenure in the program should be based on the firm's development, not a fixed number of years as it is now. Do you feel that to be a valid concern? How could that need be addressed? What would be that impact on SBA personnel and budget?

A. No. There has to be a set term of participation to ensure portfolio turnover. However, we believe in a longer set period of participation, seven to 10 years with no extension and greater emphasis in utilizing resources in business development and technical assistance. A fixed term with no extension would free-up considerable time from the BOSs, which time can be used in business development. Also, paperwork will be substantially reduced.

3. Q. Shouldn't the SBA have a way to gauge the success or failings of the 8(a) program? How is that done now? Do you have a method in place to track participants; to assess their needs for technical or management assistance; to turn a potential drop-out or failure into a success?

A. We are in the process of developing a system to provide for a survey of 8(a) program graduates no less than every two years.

We have developed a system which affords our clients an opportunity to verify the management and technical assistance services they receive and evaluate the quality of these services.

This new monitoring system is a tremendous step forward in reordering the accountability relationship of our 7(j) consulting firms. We have also initiated a program whereby 8(a) firms in their transitional years may select their own consultant for specialized assistance on a shared cost basis with SBA.

SMALL BUSINESS ADMINISTRATION

JOB OPPORTUNITY ANNOUNCEMENT

OPEN TO ☐ SBA employees ☒ SBA employees and outside sources

COMPETITIVE STATUS IS REQUIRED

JOA NO. 87-03 OPENS: 12-1-86 CLOSES 12-16-86 (Applications must be postmark by this date)

POSITION: Business Opportunity Specialist, GS-1101-11

LOCATION: Washington District Office, MSB-COD, Washington, DC

AREA OF CONSIDERATION: Region III

DUTIES: Incumbent performs a variety of function designed to provide current and prospective small business the opportunity to participate in the MSB-COD Programs. As senior specialist, incumbent reviews and evaluates the most difficult cases from the standpoint of eligibility, availability of 8(a) requirement support, management capability, and financial and operating capacity. Conducts field visits to corroborate or verify applicant's ability to perform contracts. Makes recommendation for approval or decline documenting reason and basis for recommendations. Reviews request for reconsideration and makes appropriate recommendation. Negotiates fixed program participation terms through analysis of business plans and consultation with applicant. Explains statutory and policy requirements, prepares a variety of written communication related to 8(a) application process. Assist lower graded employees when required and performs a variety of other related duties as assigned.

OTHER FACTS PERTINENT TO THE POSITION: To be rated basically eligible for consideration, applicants must show a knowledge of the full range of business management practices, methods, and techniques which has been gained in a practical setting.

QUALIFICATIONS: The following is an excerpt from the X-118 Qualifications Standards. These standards are available in all Personnel Offices.

> GENERAL EXPERIENCE: Three years of experience which provided a good basic or general knowledge of the principles of organization, management and administration. Excess specialized experience may be substituted for general experience.
>
> SPECIALIZED EXPERIENCE: Three years of operating administrative, program or managerial experience in a type of work or combination of functions directly related to the position being filled or in comparable work functions. This experience must have been sufficiently responsible to show clearly the candidate's ability to perform the duties of the position at the grade level for which application is made.

QUALITY OF EXPERIENCE: One year of the required experience must have been at a level of difficulty and responsibility comparable to the GS-9 level in the Federal Service.

Education may be substituted for some of the required experience. Applicants should furnish complete details of their educational achievements.

TIME-IN-GRADE REQUIREMENTS APPLY: Applicants who meet time-in-grade requirements within 45 days of the closing date will be considered.

INDIVIDUALS ELIGIBLE FOR NONCOMPETITIVE APPOINTMENT BECAUSE OF SPECIAL APPOINTING AUTHORITIES (e.g. VIETNAM AND DISABLED VETERANS, HANDICAPPED PERSONS, ETC.) MAY APPLY.

KNOWLEDGES, SKILLS AND ABILITIES (KSA's) USED IN THE RATING PROCESS: Applicants will be evaluated on each of the following KSA's. The maximum number of points assigned to each KSA is also shown. Applicants should submit a narrative description of their experience, education, training, etc., relative to each KSA. Please provide the information in the following order:

1. Knowledge of business and industry operation including skill in analyzing capabilities, real and potential problems involved in business operations. — 15 Points

2. Skill in financial statement analysis to determine financial soundness, financial needs and ability to perform contracts. — 15 Points

3. Skill in evaluating a variety of data/information, developing findings, and making recommendations which document reasons and basis of findings. — 15 Points

4. Skill in oral and written communications to clearly present complex and interrelated concepts and information. — 15 Points

5. Skill in interpreting and applying policies, procedures, regulations etc., relative to a major program. — 15 Points

EVALUATION CRITERIA

Applicants will be evaluated on the following: Experience, education, awards, training and self-development, outside activities, supervisory assessment of KSA's and narrative self-assessment.

The CHAIRMAN. Our next witnesses are a panel.

Mr. Reginald Powe, president of Dialogue Systems, Inc., New York, NY; Mr. Davad Gardner, chief executive officer, Dave Gardner Contractor, Inc., Buzzards Bay, MA; and Mr. Johnnie L. Johnson, president of Johnson and Gordon, Cincinnati, OH.

If you gentlemen will please come forward and take your seats, I would appreciate it.

Mr. Powe, since your name appears first on my list would you please lead off?

And gentlemen, let me say that the Committee always welcomes a summarization of your statements. If you wish, certainly, your full statement will be admitted in the record. If you can summarize the Committee will appreciate it. If you cannot, we will understand.

STATEMENT OF REGINALD POWE, PRESIDENT, DIALOGUE SYSTEMS, INC., NEW YORK, NY

Mr. POWE. First of all I am very happy to have the opportunity to present testimony before the Committee based on my experience in the 8(a) Program.

I do not know where I was when the graduation gifts were being handed out. Certainly our firm was not the recipient of one. I did not know anything about the graduation gifts, and in fact when we left the 8(a) Program for being too large we had no 8(a) contracts.

In fact, during the last 4 years, we have not received a single Federal contract from any agency whatsoever. Just one other comment, we have been trying to get a GSA number for a year and a half. Not under any special program, but simply a GSA number, to provide micro-computer related services to Federal agencies.

Despite many, many inquiries, nothing seems to happen. In fact the attitude almost seems to be, let us see what we can do to prevent them from selling goods to the Government. So with that I will just go into a brief overview of Dialogue Systems.

I started this company in 1970. Basically our business is to develop educational and training materials. During the last 3 or 4 years we have concentrated on computer-based educational and training materials, how-to type products, and so forth.

We have a full-time staff of approximately 200 people. Our headquarters are in New York City. In 1979 in our company we had about $2.5 million in sales. Last year in 1986 our sales were about $10.5 million. In 1987 our sales will be approximately $16 million.

All of our business is in the private sector. In fact none of the business that we have is through minority contracts. It seems as if it is almost to our benefit not to be identified as a minority-owned firm.

I believe though that there is absolutely no doubt that some sort of minority set-aside program is absolutely essential, if minority firms are going to significantly participate in doing business with the Government.

In my opinion the major reason why minority-owned firms have not been as successful in competing against non-minority firms, is the widely-held perception that there is something inherently infe-

rior with the quality of services that a minority-owned firm delivers.

This I feel is an attitude that is pervasive, and extremely difficult to change. I think that the most effective way to deal with the problem is to pass legislation that requires the Government to set aside a certain amount of funds for minority firms.

As distasteful and as uncapitalistic as that may seem, the truth of the matter is I believe that racism is alive and well. I will give you an illustrative example.

In 1980 our company was invited through the 8(a) Program to make a presentation about our capabilities to develop a brochure. At the time I was invited down there, I had no idea of the size of the project.

But the 8(a) people in New York said, well, this is a terrific opportunity. Go down and make this presentation to them for this business. At the time our sales were approximately $5.5 million. We had several contracts of a half million dollars and over.

It was to a division of the Department of Health and Human Services. There were eight Federal employees in the room at the time, and I personally made the presentation to them.

At the time we had won several awards for producing outstanding products for AT&T, Bristol-Myers, Clairol, and so forth. During this period of time, and it should have been clear, with no doubt in anybody's mind, that we were absolutely, in fact uniquely qualified to undertake this work, which turned out to be a four page brochure of a value of about $2,500.

Despite this, I must have been asked at least eight times in different ways, was I sure that we could do this work. Over and over again. Finally, in disgust, in frustration, I told them what I thought of the process they were using to select a vendor and left the meeting.

I think that the most helpful aspect of the 8(a) Program is simply the process itself. I think that the fact is that there is a program that requires certain agencies to set aside money, and I do not believe that minority-owned firms would get a fair share if this was not the case, regardless of their level of competence.

I think the least helpful part of the program was the fact that technical assistance providers, as Senator Bumpers had said, were in my opinion not capable of providing any meaningful assistance. In fact, of all the ones that I met I would not have considered hiring any one of them for any position within my company whatsoever.

When we were going throughout the transitional phase in leaving the program, we were provided with some technical assistance by a consulting firm in New York. And to just emphasize what Senator Bumpers said, when they came to the office they had absolutely no idea what business we were in whatsoever. None.

What they did, their overriding goal seemed to be to compile huge reams of statistical information that they could submit in time to the local office so that they could receive their contract money. And I would say that the people were totally incompetent.

No knowledge of the business, no knowledge of how to approach marketing. What I would say was a very rudimentary knowledge of

how to prepare a business plan that could have been gleaned from reading any introduction to business book.

I think that the management and technical skills of the SBA staffers definitely needs to be upgraded. The length of time in the program did not seem to be a factor for us, although I think that the program should be limited to a specific period of time.

But I think it should be based on that firm attaining certain goals and objectives that are mutually agreed upon between the agency and the firm.

I think that some of the additional suggestions that I would make for improving the program are, I think the program definitely has to be depoliticized. There is no doubt, at least in my mind, that it is a political program having nothing to do with the competence or the ability of the firms to deliver services.

I think that somehow there ought to be more business people, people who have actually run businesses and operated businesses placed in key positions within the agencies. I think that joint ventures should be encouraged among minority-owned firms.

I also believe that the certification process seems to be based more on political considerations than whether or not the firm has the ability to compete, and whether or not there is a need for the kinds of services that that firm offers.

In fact I think that ought to be one of the criteria for entry into the program. There ought to be a real need for the services that the firm can provide. And that concludes my testimony.

[The prepared statement of Mr. Powe follows:]

STATEMENT OF MR. REGINALD POWE

I'm happy to have the opportunity to present testimony before the committee based on my experience in the 8(a) program.

OVERVIEW OF QUALIFICATIONS

Corporate Capabilities. Dialogue Systems, Inc., founded in 1970, is a corporation that specializes in the development of multi-media training programs for business and industry. During the past four years DSI has concentrated on micro-computer-related training materials and software documentation. In 1972 DSI established a subsidiary, Curriculum Concepts, Inc., which has grown to become the largest development company serving educational publishers in the U.S.A. The primary focus of CCI is the development of educational products and programs. The combined staff of DSI and CCI numbers 200 full-time people. In addition, the companies employ forty to fifty freelance writers, editors, and producers.

DSI is experienced in all phases of product design from concept development, writing and editorial development, and art, design, and production, to manufacturing. We have developed all types of print materials including: computer-user documentation, computer-assisted instructional materials, computer literacy workshops, and books on how to select computers and on word processing, brochures, duplicating masters, kits with role play and discussion cards, consumable pads, and presentation or flip charts. We have developed as well a full range of multi-media material including: film, videotape presentations, tape cassettes, filmstrips, overhead transparencies, and slide shows. We have also produced training diskettes for the leading business software packages for microcomputers. In addition to the development of these materials, DSI is a leading distributor of microcomputer-based software to the professional marketplace, with over 300 products represented in the DSI MicroTraining Catalog.

Sales History

DSI has grown from a company of 2.5 million dollars in sales in 1979 to a company of 10.5 million in 1986 and projected sales of 16.0 million in 1987.

I believe that some sort of minority set-aside program is absolutely essential if minority firms are going to significantly participate in doing business with the government.

In my opinion, the major reason why minority-owned firms cannot successfully compete against nonminority firms is the widely held perception that minority-owned firms simply can't provide quality services.

This, I feel, is an attitude that is pervasive and extremely difficult to change. I think that the most effective way to deal with the problem is to pass legislation that requires the government to set aside a certain amount of funds for minority firms.

Even with this type of mandatory program it will still be difficult for minority firms to do any significant work for the government.

Illustrative example:

In 1980, our company was invited through the 8(a) program to make a presentation about our capabilities to develop a brochure for one of the divisions of the Department of Health and Human Resources. I personally made the presentation to a gathering of eight federal employees.

At the time, DSI had recently won several awards for work we had done for AT&T, Clairol, and Bristol Meyers and, in addition, we had produced many, many brochures. There should have been no doubt about our ability to produce a two-page booklet for the agency. Nevertheless, our qualifications to do the work were questioned over and over again. It was a $2,500 project.

Finally, in frustration, I told them what I thought of the process they were using to select a vendor and left.

a. The most helpful aspect of the 8(a) program was that the government required federal agencies to set aside a certain percentage of their budgets to go to minority owned firms...without this set aside provision I believe that it would be extremely difficult for minority owned firms to do business with the government, regardless of how competent they are.

b. The least helpful part of the program was the fact that "technical assistance" providers were, in my opinion, not capable of providing any meaningful assistance. In fact, I would not hire on any basis most of the personnel with whom I came in contact.

c. The management and technical skills of the SBA staffers should, in my opinion, be upgraded. Length of time on the program was not a factor - 1980 was a good year, 1981 and 1982 were poor and 1983 was very good.

d. I believe that there should be a fixed period of time for participation in the program; 5 years for a new firm. When these firms reach the agreed upon goals there should be an additional 2 years transitional period geared to reducing the firms dependence on 8(a) contracts.

e. Additional suggestions for improving the program are:

1. Depoliticize the program.

2. Place retired successful businessmen in key positions.

3. Increase the percentage set aside from agency budgets.

4. Encourage joint ventures.

The 8(a) certification process seems to be based more on political considerations than whether or not the firm has the ability to complete and whether or not there is a need for the kind of services the firm provides.

The CHAIRMAN. Thank you very much. Mr. Gardner.

STATEMENT OF DAVID R. GARDNER, CHIEF EXECUTIVE OFFICER, DAVE GARDNER, CONTRACTOR, INC., BUZZARDS BAY, MA

Mr. GARDNER. Mr. Chairman, ladies and gentlemen. I started a business in 1957 with a box of tools, and a lot of guts, I think. More than I would have now.

I was invited or requested to apply for the 8(a) Program in 1974. It took me about 3 months to fill out the various reams of papers and get all the information together, plus hiring a certified public accountant.

And in 1974 I prepared the paperwork, and approximately 10 months later I was awarded a contract for $135,000. Another contract came in the same year, in 1975. I believe that was $38,000.

Now my business up to that point had been somewhere in the neighborhood of $325,000 gross. So this was a good chunk, and it took me out of the homeowner-oriented realm of putting on storm windows and doing heating systems, into the general construction type of atmosphere.

Unfortunately, the second year I received about $30,000 in 8(a) assistance. So now my gearing up to do the larger projects, and so forth, all of a sudden I am kind of left alone.

I could not go back to the homeowner, more or less, because I had more or less abandoned them and the base that I had previously. My business plan called for $5 million in gross sales in 5 years time.

Of course I was assisted by the SBA personnel in preparing the business plan, so it was not just my idea of wishful thinking. It was their idea of the capabilities that I could attain with their assistance.

So now I have had 1 good year of participation, and 1 year in which I more or less lost the gains I had. I gained a good deal of expertise and knowledge in quite a number of ways. Knowledge of the system.

The third year of participation the contracts began to flow again, and at that time I was doing approximately, I would say 50 percent 8(a), 30 percent other Government, and 20 percent of the outside, commercial institutional type of work.

I was assisted all the way through from the beginning of the program. When an agency for instance would give a project to me through the SBA, the SBA would negotiate with me. Appear at the negotiation and everything went along smoothly. I was given fair contracts with fair prices.

As the contracts pursued, if I ran into a particular problem that I just could not seem to handle, I would go back to the SBA and say, gee, I am having a problem with an inspector or something. I really think I am doing well. But I am having problems over there. And they would come to my aid.

After 3½ years in the program, due to attrition, people retiring, not being replaced, and so forth, I got to be on my own, so to speak. The SBA would call up and say, here is a project. We are sorry we cannot send someone to negotiate with you. But we just do not have enough people and we do not have the time.

I will tell you, some of those negotiating sessions were absolutely brutal. There would be 8 or 10 representatives of the Government, and me. And they would pound and cut and scrimp and scrape.

They would come out and blatantly say, look, we expect the lowest price we could get for this job on the street, and if you will not do it for what we could get it at the lowest bid, then we do not even want to talk to you.

And I would say, look, I am sorry, but I am in a learning curve. This is the reason I am in this program. I need a little extra money. I need a little extra help. And they would simply close their books and say, that is it. Get out of here.

Now you have done 3 weeks', 1 month's worth of work of itemizing every single man-hour of labor, of itemizing every nail and every piece of lumber and the concrete and your subcontractors and your machinery, and 3 weeks' or 1 month's worth of work at good cost is down the drain.

I will be truthful, there were some contracts I took that I should have closed my books and walked out the door and said, the heck with you people.

But I could not because I had so much money and time invested in it and I did not have work coming up in the future because now I was more or less tied to the Government Procurement Program, if you will, that I had to take the contracts and suffer the consequences.

And sometimes the consequences were steep. We had contracts that we lost, I would venture to say, on one particular one of $230,000, I lost $45,000 on that one, based on first of all no assistance in the negotiation process, no backup by the SBA, and thirdly, and the worst part of all, the prejudice on the part of the agency.

This was a Navy project. The prejudice of the people in that agency and the lengths that they made my company go to in order to give us final approval on our contract and to pay us.

I spent 8 years in the 8(a) Program. At the end of my 8 years, my gross sales were $1 million, the same as they were at the end of my third year in the program. The last 4 years, as I said before, I got very little benefit from the people in the Boston office.

It is not that they were not dedicated. It is not that they were not knowledgable. They were, for most cases. However, there just were not enough of them.

The agency had been losing people right and left, and they told me right out, Dave, we will give you the support we can, but we just cannot give you any more time than what we have already.

There were other aspects of the SBA Minority Program, such as the SBDCs—I believe they are called—where a private contractor would come out and say, we want to assist you. We have a grant and what do you need, and so forth.

And they would, as Mr. Powe said, come up with a nice thick volume of information after they were finished, 2 or 3 months down the road, and basically it would say, we think that Mr. Gardner should concentrate on this. We think Mr. Gardner should do this.

And all it would be is, my ideas of what maybe I should be able to do. So all they did was take my ideas, put them in some nice words, thicken it up nicely, and pass it back and take their money.

I do not feel that these were useful at all. They were almost more inclined to lead me down the garden path by saying, yes, we think that you can enhance your business by going into the large, corporate private sector, and so forth.

We would go to trade fairs, and they would say, you should really go to this trade fair because there will be people from all the different companies that want to buy your products and services.

And at the trade fair they would say, what kind of batteries, widgets, screws, bolts or whatever do you manufacture. And I would say, I am not a manufacturer. I am a contractor. I would like to do work on your buildings. I would like to help put an addition on or maintain the buildings or something of that sort.

There was no requirement on these companies for minority participation on working on their buildings. The requirement was on their purchases from the minority people who were supplying manufactured items. So that was nowhere.

I went to a number of trade fairs, in Connecticut, Boston, Andover, and I got nowhere with that. So I think that was again an effort at aiming my company in a particular direction, but there was not any research into what direction my company should go in before I was aimed. So I spent many a day and many a weekend on these things, and it did not really produce any results.

One crowning blow was a brother or sister agency, if you will, of the SBA. This is where I feel the biggest, the largest void is. The lack of cooperation between different agencies of the SBA.

I procured a loan, a direct loan in 1977, and my history of payment on the loan is excellent. But the loan got paid down and down and down. Now in order to procure the loan I had to place everything that I owned, with the exception of my personal home, which I insisted be left out of it, everything that I owned as collateral.

So now it is at the point where the loan is paid down, was originally $110,000. The loan is paid down to about $40,000. And yet the Government has collateral of $350,000 or $400,000 worth of all my company and everything I own, including personal assets.

So I applied for a second loan. I could not go out to the private sector, because I cannot offer them any collateral. And though the agency said, "well, why do you not submit to us a list of what you want us to drop."

I would submit a list and 3 months there would be no answer. So I had all my collateral tied up with SBA. I asked for a second loan and I said, "why do you not give me another," and they said, "well, you should keep the first one because it is at a very low rate of interest."

We will give you a second, which I procured after 15 months of effort. During that 15 months, of course, the SBA made sure that they attached everything again of all my company and personal assets, with the exception of my home.

I did again insist that I keep my home out of it, in case some major catastrophe came up and I needed to go out and get some money, health or something of that sort.

Fifteen months to get that money. During which time, I will be truthful with you, my working capital went down way below the

zero point to quite a minus number. I graduated approximately 2, 2½ years ago from the 8(a) Program, still with the $1 million.

I did receive a couple of graduation presents, if you will. They were contracts, I believe, totaling something like $200,000, maybe $230,000. I am still struggling. I do not have working capital. I cannot go to a commercial institution.

There appears to be, the minute you say SBA, or the minute you say minority, or whatever, there appears to be a stigma. But also I have no collateral to offer them.

The CHAIRMAN. You do not look like a minority. Why would they discriminate against you?

Mr. GARDNER. Well, I do not know. I am an American Indian, first of all. But the minute you are in the SBA program and you present your papers to a bank, that seems to be the end of it.

In fact I have a gentleman from one of the local banks call me about 2 months ago and say, I would like to come up and discuss a loan package with you. And he did. He spent 2 hours in my office, went over everything, and left. I have never heard from him again.

I have called him twice and he does not answer my calls. I gave him all the information that I have, showing my status, and the status of loans and conditions of where my collateral was, and I have never heard from him again.

In summation, I think the 8(a) Program, and I will not say it was not a boost, it was. It gave me a great deal of knowledge that I would not have had otherwise. It taught me how to do heavier construction.

It gave me equipment, through business development expense in the beginning phases. And that equipment I still have today. I have every piece of it and I take care of it very jealously because I cannot afford to go out and replace it at this point.

It is equipment that has worked very well for me, and it was of a great advantage at the time. Unfortunately, when they would say we are going to give you a particular project and we know you are going to need a piece of equipment, by the time you got the piece of equipment the project was all done.

But these are matters that, I know the Government takes a long time to do things and in this particular case it did. But the equipment eventually was there. It could be used on other projects. My company now is in the position of attempting to establish a good, local commercial business, with the expertise that we had.

I feel if the people that were there at the beginning of the program either were allowed to stay or had not retired or whatever, in other words, if knowledgable people who started it continued on, that the 8 years time that I was in it I would have realized the full value of the program, I would have gotten my $5 million gross per year, and I would be in a much better position now.

But the people were not there. The agency was more or less stripped. When the FPPT came along it almost seemed, I asked for 3 years. I hoped for 2 years. I was given 1 year. And that 1 year was not enough, combined with the situations that had developed.

My company will not die tomorrow. But it would not have died tomorrow if I had not gotten into the 8(a) Program either. I might be in the same position I am in today. I might not. I cannot say that I would not have gotten this expertise.

However, I know that the beginnings of the program, the first 3 years that I was in it was a definite help, an assist, a boost, it was something I needed, something I appreciated, and something that was very effective.

Unfortunately, the last 5 years in the program kind of negated most of what happened in the first 3 years. That is my particular case.

[The prepared statement Mr. Gardner follows:]

Dave Gardner, Contractor, Inc.

May 5, 1987

Senator Dale Bumpers, Chairman
Committee On Small Business
United States Senate
Washington, D.C. 20510-6350

Dear Senator Bumpers:

Thank you and the Committee for the invitation to appear regarding the Small Business Administration's 8(a) Program. I do intend to appear on Tuesday, May 12, 1987, for the hearing. The following are comments I have on the 8(a) Program.

The Small Business Administration 8(a) Program must involve all aspects of its design in order to be an effective vehicle for the establishment of Minority firms. If one of these is left out, the entire process will suffer, and the firm, of course, suffers most. May I briefly show these aspects:

1. The Small Business Administration must procure requirements from the various agencies of the Government that are within the scope of their portfolio firm's capabilities, not just the ones the agencies can't get "proper" bids on. Many of the requirements I received are ones that had gone through the competitive process as many as three times. Further, the Small Business Administration must not make the firm feel guilty if it doesn't take every requirement that is offered.

2. The using agency should understand that the 8(a) firm is experiencing a learning curve (after all, isn't that what the program is all about?) and expect to negotiate a contract based on the fair value of the work, not what they could get the contract for "on the street from the lowest bidder." Also, the S.B.A. should have enough staff to provide a knowledgeable person to assist the contractor in the negotiating process. Too often the contractor represents himself while the Government presents from eight

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to a dozen people. This is an overwhelming experience to a small contractor.

3. The using agency should be required to present their estimates to the S.B.A. prior to negotiations with the contractor. Too often the contractor is pressured to cut his cost estimates by a battery of Government Engineers, only to find that when the process is finished and an agreement is reached, the Government estimate was higher than the contractor's first offer. The presence of an S.B.A. negotiator with prior Government estimates would preclude this from happening and allow the contractor a reasonable amount for his work based on the agency's own estimates.

4. The using agency should not be able to retract an offer once it is presented for negotiation without proper justification. Simply not getting a proposal that meets their estimate should not be criteria for withdrawal of the requirement. On a construction project in the area of $200,000, it takes approximately three weeks of concentrated effort on the part of the contractor to put an estimate together in a manner the agency will accept. Every hour of labor, every piece of material, every rate including overhead and profit must be tabulated and presented ahead of the negotiation. This is a costly process that can be negated at the whim of the agency negotiator with a wave of his hand, leaving the contractor with three weeks of wasted work.

5. The using agency should be made to understand that the 8(a) set-aside is a requirement of the United States Government, mandated by Congress. Prejudice against Minorities should not be allowed to enter into the process, and the agency should negotiate in good faith with the intent to meet an equitable agreement that will benefit both parties. Once that agreement has been reached, the contractor should not be penalized on the job (as is very often the case) for receiving more than the "low bid" might have been for the work performed. Proper staffing of the S.B.A. Office would provide support against unfair pressures by the agency.

6. Small Business Administration programs including business development expense (BDE) and advance payments were extremely helpful to the 8(a) contractor. Unfortunately, these programs have been severely limited or dropped in recent years. The advance payment was a method whereby the small contractor could do a larger job without exhausting his working capital, enabling him to make payments to suppliers on time and establish a higher credit rating. The abandonment of this program limited my Company's growth for the last four years of participation, leaving my gross basically the same through that period.

7. The Fixed Program Participation Term (FPPT) seems to be based on the length of time in the program, not what the program has accomplished for the participant. One of the requirements of the business plan is a reasonable potential for the growth of the Company. Once established, that goal should be the criteria for participation as long as the Company shows willingness to use its best efforts. When the FPPT started, it appeared there was a mandate to get firms graduated without regard to their business plan goals.

8. The Small Business Administration has numerous programs besides the 8(a) set-aside that should be available to the 8(a) contractor. These include the all important loan package. These programs must interface in order to be an effective system for the Small Business Person. In my case, this was not the case. It took 15 months to get a Small Business Loan from the Boston Office, during which time the S.B.A. had all my collateral tied up and pledged to them. I could not go to a commercial bank during this period as there was no collateral to offer them for security. The S.B.A. had attached and tied up three times the value of the loan request for the 15 months it took to obtain the actual proceeds. This had a tremendously negative impact on my situation just at the time I graduated from the 8(a) Program. I am still in the process of trying to recover from this situation.

   One other segment that comes to mind is the sub-contracting to larger firms. There was no interface in the S.B.A. organization to direct my Company to that segment of opportunity. There were numerous seminars and "trade fairs" mostly promoted by SBDC's, but I found the larger Corporations were looking for suppliers of "widgets" instead of contracting services. It seems they would not get credit for Minority participation by having a Minority Company working on their buildings.

In summary, let me add up all the comments above in one simple statement. I believe the S.B.A. should be staffed with people who believe in the system, are capable of doing their jobs, and are committed to the intent of the program(s). There should be interaction between all segments of the organization, with each section cooperating with the other to provide integrated assistance. The "small business" is the promise of the Nation, with its capacity for production, its constant use and training of the labor force, and its ability to withstand changes in the business climate. The Small Business Administration is the promise for the small business person, and that promise should be fulfilled with the full power of the Federal Government.

Very truly yours,

David R. Gardner, CEO

DRG:ag

The CHAIRMAN. Thank you. Mr. Johnson. We have a Johnnie Johnson out in Chicago. Do you know who he is? He is from Arkansas. We are proud of him.

Mr. JOHNSON. Yes.

The CHAIRMAN. He is worth $18 jillion dollars.

Mr. JOHNSON. I certainly wish I was that Johnnie Johnson. [Laughter.]

The CHAIRMAN. You are the real Johnnie Johnson. [Laughter.]

STATEMENT OF JOHN L. JOHNSON, PRESIDENT, JOHNSON & GORDON, INC., CINCINNATI, OH

Mr. JOHNSON. I am personally grateful for the interest that you have shown regarding the status of minority firms that have graduated from the SBA since 1980.

First, you have demonstrated this concern by the survey that you conducted in August 1986. Second, by asking us to come before you today to give our testimony.

This action on your part continues to affirm that there is hope that one day minorities will participate in the full extent of the American dream, and further, someday may even join the ranks of America's most prestigious Fortune 500 corporations.

We formed our company, Johnson & Gordon, Inc., which performs janitorial services, in the year 1965 as a partnership, and later we formed the corporate entity in 1978. This is our 22d year in the janitorial business.

We employ approximately 187 persons, 83 percent of which are part-time persons. And our firm is a 100 percent minority-owned business. Sales in 1986 were approximately $2 million.

The CHAIRMAN. Wait a minute. You employ 187 people and your sales were $2 million?

Mr. JOHNSON. Yes, sir. Eighty-three percent of them are part-time personnel.

The CHAIRMAN. OK.

Mr. JOHNSON. We participated in the 8(a) Program from around 1975 until October 5, 1985. The last 8(a) contract will terminate at the end of this month.

It is somewhat ironic that our firm has only lost money twice in its 22 year history. The first year, 1975, when we entered the 8(a) Program, and in 1986 as we are nearing the terminus of our participating term. In 1986 we lost $75,000.

We discussed this with the SBA in 1983. We presented to them audited statements which projected in 1986 we would have a $26,000 loss. SBA turned a deaf ear to it. Gave no consideration to those factors.

According to my understanding, the stated purpose of the 8(a) Program was to assist minorities and other socially, economically disadvantaged persons to social and economic viability.

In my own experience I must say the 8(a) Program has been of inestimable value in assisting my firm toward its goal of social and economic viability. On this continuum there remains a great deal to be accomplished in the business arena that minority business finds itself in the midst of today.

Certainly the 8(a) Program will have to gear up to meet today's challenges, in ways that were non-existent 2 years ago. The 8(a) Program has been beneficial in several ways.

Number one, the contracting opportunities that were provided to assist our growth was one of its strongest components and very beneficial.

Two, in the early years of the program it filled the business knowledge vacuum by providing us with various managerial training seminars, seminars that taught us how to create a business plan, to look at our finances, develop sales and marketing ideas, and how to manage our day-to-day operations.

Also, we benefited significantly from utilization of the business development funds aspect of the 8(a) Program. Our firm utilized these funds to develop several marketing and sales brochures.

Another very beneficial aspect of the 8(a) Program was the bonding program, the 90 percent guarantee bonding program which helped our firm to survive and to be able to reach out into the private sector and acquire contracts that otherwise required bonding.

While there are several needed changes that I recommended to the program in my written statement, I believe the 8(a) Program is one of the best conduits available to minority business, to help us achieve parity and social and economic viability in America today. Thank you.

[The prepared statement of Mr. Johnson follows:]

(513) 281-0990

STATEMENT OF MR. JOHN L. JOHNSON

Johnson & Gordon/Incorporated

May 7, 1987

Testimony: Senate Committee On Small Business

To the Chairman, and ranking committee member and other members of the Senate Small Business Committee.

I am personally greatful for the interest that you have shown with regards to the status of the minority firms that have graduated from the S.B.A. 8(a) program since the year 1980.

First, you have demonstrated this concern by the survey that you conducted August, 1986 and second, by asking us to come before this committee today to give testimony.

This action on your part continues to affirm that there is hope that one day minorities will participate in the full extent of the American dream.

2904 WOODBURN AVENUE • CINCINNATI, OHIO 45206

A. Brief Description of Johnson & Gordon, Inc.

1. My name is John Johnson, President of Johnson & Gordon Incorporated of Cincinnati, Ohio formed in the year 1965 as a partnership and in 1978 as a Corporation.

2. This is our 22nd year in the janitorial and building services business. Our firm employs approximately 187 persons of which eighty-three percent are part-time employees. Our firm is 100% minority owned.

3. Our 1986 sales volume was approximately Two Million dollars ($2,000,000.00).

B. Answers to relevant Questions

regarding participation in the 8(a) program:

1. Qstn.: The most helpful aspect of 8(a) to our growth and development?

Answer: Our firm participated in the 8(a) program from around 1975 until we graduated October 5, 1985 (10 yrs.). Our last 8(a) contract with G.S.A. will terminate at the end of this month.

Our firm has only lost money twice in its entire history, 1975 when we first entered the program and 1986 when nearing the terminus of our participating term. In the year 1986 due to the loss of a sizable 8(a) contract our firm lost approximately seventy-five thousand dollars ($75,000.00).

Therefore, 8(a) contracting was the most helpful aspect of the 8(a) program for our firm and contributed significantly to our growth and development. The S.B.A. Bond Guarantee Program was the second most helpful aspect of the 8(a) program.

2. Qstn.: What was the least helpful aspect of 8(a) to our growth?

Answer: Providing access to contracting opportunities within available government markets outside of our district was one of the least helpful aspects of the 8(a) program.

There were times when we would acquire contracting opportunities through our marketing efforts and see our district office fail to bring the effort to fruition.

The 8(a) program was ineffective and least helpful to our firm in the area of net working with other federal agencies to aggressively develop contract opportunities. Further, the program failed to establish any serious networks among the various size 8(a) contractors in an effort to foster growth and development among 8(a) contractors.

3. Qstn.: How did the length of time in the program aid our growth and development?

Answer: The length of time in the program was inadequate from the point of view that the first five (5) years of participation were dormant years in terms of contracting opportunities.

However, in another sense, during the first five years we benefitted from the various training seminars that were sponsored by the S.B.A. in order to prepare us from a management standpoint once the contracting opportunities were made available.

Overall, the time in the program was adequate in terms of providing us with the necessary management skills, but inadequate in terms of the contracting opportunities and the abrupt manner in which such opportunities were terminated without consideration to consequences. Consequences which has resulted in bankruptcy for some former 8(a) firms.

4. Qstn.: Has the F.P.P.T. been helpful?

Answer: The manner in which the Fixed Program Participation Term was introduced and implemented has spelled disaster for many former 8(a) firms.

The F.P.P.T. program at its inception was not subjected to the wisdom and forethought that it required. Further, it did not focus on the results of the hasty radical termination procedures that were developed during the austerity years of the Regan Administration.

Personally, I tried incessantly but to no avail to get the S.B.A. district and regional facilitators to consider the consequences of an abrupt termination of my firm from the program. At the time of our termination, forty-four percent (43.7%) of our sales volume were 8(a) sales. During this period our audited statements showed an almost twelve percent (11.9%) cost of sales increase ($162,400) with a projected loss of $26,000 for 1986.

In 1983, I responded to the districts office request for additional information regarding a seven year (7) F.P.P.T. extension from the regional office. I cited our firms progress in the area of sales and implementation of the newly developed Price-Waterhouse business plan and the difficulties we were experiencing with spiraling effects of inflation on the companys gross profits and operating expenditures.

Apparently, the directive of the Regional Office to terminate a given number of 8(a) firms prevailed over the accounting indicators of our 1983-84 audited financial statements. The 18 months F.P.P.T. remained unchanged and we were terminated October 5, 1985.

The Auditors $26,000 dollar projected loss for 1986 proved to be very conservative in that he was not aware that we would lose our largest 8(a) contract with Newark Airforce Station, Newark, Ohio. In 1986, we lost $75,000 dollars.

I ask this committe to give serious consideration to modifying the F.P.P.T. component of the 8(a) program. This component, if not changed, can be disastrous.

5. Recommended 8(a) program changes

Qstn.: What changes do you suggest for the 8(a) program?

Answer:

a. First of all, I suggest a complete elimination of the "Fixed Participating Program Term" as it is presently constituted which relies more upon subjective criteria than factual data. Termination of 8(a) contractors from the program should be based entirely upon a joint review of the 8(a) contractors audited financial data by S.B.A. and the accounting firm of the 8(a) contractor. The contractors readiness for graduation should also include a thorough review of 1) The long range implications of graduation, 2) The impact of the loss of the 8(a) contracts portion of business, 3) The existing market conditions of the particular industry, 4) Inflationary and other destablizing trends, 5) Special industry changes that could effect the continued success of the 8(a) firm.

b. Second, in order to enhance minority business opportunities to become competitve according to todays Government and Private Sector contracting practices, practices which have been germane to the success of some of Americas most prestigious corporations such as General Electric, AVCO, Hewlett-Packard and General Dynamics Inc. just to name a few.

Therefore, I propose a "Three-Tiered" approach to 8(a) contracting that would eliminate the need for the F.P.P.T. component in its present form.

Three Tiered 8(a) Contracting Approach

Tier - 1 Entry Range (1-3 yrs.)

- Certification Process (adequate in present form).
- Management Development: (Business Plan; Finance; Accounting; Sales and Marketing; Personnel; Office Management; etc.)
- Procurement of small 8(a) contracts measured by industry standards and capabilities of 8(a) business.
- Contracting limited to procurement opportunities within the geographical district.
- Assignment of S.B.A. contract facilitators to continually market the agencies within the particular federal districts.
- Graduate to Level - 2

Tier - 2 Moderate Range (5 yr. period)

- Introduction to moderate size 8(a) contracts
- Elimination of regional barriers to permit 8(a) contracting throughout the 8(a) contractors geographical region.
- Assignment of Level-Two S.B.A. facilitator to continually market the federal agencies within the region to procure contract opportunities, create federal and 8(a) contractor net works.
- Graduate to Level - 3

Tier - 3 Big Business Range (Unlimited Tenure)

- Introduction to Big Business Size contracting opportunities to enhance the 8(a) firms ultimate competitiveness.
- Elimination of all national and international barriers to provide 8(a) contracting opportunities nationally and internationally.
- Assignment of Level - Three S.B.A. National and International facilitators to continually market the various federal agencies to provide 8(a) contract opportunities and continue the emphasis of networking.
- Begin program graduation reviews upon accomplishment of business plan goals and objectives, Accounting Audit joint reviews, etc.

Once an 8(a) contractor graduates under this three-tiered 8(a) contracting approach, the S.B.A. should provide a stated probationary period (24 months) to be sure the respective 8(a) firm remains solvent through the probationary period (24 months).

If the respective firm experiences adverse market or financial difficulties unrelated to conditions of their doing, that they be readmitted to the program until such conditions are corrected.

Also, that 8(a) firms who have graduated from the program but who are fulfilling the option years of contracts that started prior to graduation, be permitted to extend those contracts indefinitely in the face of audited financial data that would support such a senario. Under these conditions a gradual phase-out contract replacement schedule should be developed jointly by S.B.A., the 8(a) contractor and his accounting firm.

Finally, I suggest that S.B.A. perform an immediate status review of all 8(a) contractors who have graduated from the program since 1980, and all those who have not already fallen into bankruptcy but who are in a deficit position, be readmitted to the 8(a) program immediately.

Senator Bumpers, the S.B.A. 8(a) program was started to provide business opportunities for the nations minorities who have contributed to the overall growth and development of our nation but who because of racial injustice and bigotry were hindered from full participation in the American dream.

I think my remarks will find lodgement and at least tacit agreement from other minority business persons when I say that the 8(a) program fused a ray of hope in us with respect to the principle that says, "God helps those who help themselves."

The 8(a) program provided such an opportunity for us to help ourselves to social and economic viability. It is my hope that you gentlemen will continue to foster this dream, if not for me, maybe for the young blacks that Time Magazine alluded to as "Americas New Lost Generation," or yet those young black men who comprise only twelve-percent (12.0%) of Americas general population, but make up sixty-two percent (62.0%) of her prison population. The success of the 8(a) program has far reaching implications to America and her native sons who happen to be minorities.

I whole hartedly congratulate you, Senator Weicher and the entirc Committee On Small Business for conducting the survey and these hearings. I am sure many S.B.A. participants and graduates will feel a measure of relief in knowing that our government is concerned about the continuance of the nations minority businesses who were spawned by the congress of the United States of America.

Thank You

The CHAIRMAN. Thank you, Mr. Johnson.

Mr. Powe, you stated on page 3 of your testimony, the 8(a) certification process seems to be based more on political considerations then whether or not the firm has the ability to compete and whether or not there is the need for the kind of services that the firm provides.

What do you base that on? That is an interesting statement.

Mr. POWE. Well, when I originally was in the program——

The CHAIRMAN. You think if you would have been a good Reagan Republican you would not have had so much trouble? [Laughter.]

Mr. POWE. That is possible. But I think a couple of things.

When we first went into the program it was suggested to us by the people around that the way to get into the 8(a) Program was to have some political connections, and that you needed to talk to whoever your local Congressman was, and so forth, that it was not simply a matter of filling out the forms, presenting your qualifications and being accepted into the program based on the needs of the program.

We did go through the process. I did not have any political connections at that time. And it took about, I guess probably 1½ years of going back and forth before we were accepted into the program.

The CHAIRMAN. Did you ever consult your Congressman or Senator about it?

Mr. POWE. No.

The CHAIRMAN. You just toughed it out and finally they accepted you.

Mr. POWE. Right.

The CHAIRMAN. Is your company profitable now?

Mr. POWE. Yes. But it is interesting to note, there were only 2 years that we also in our history of the 16 years that we have been in business, the only 2 years that we had losses were the 2 years that we were in the 8(a) Program. [Laughter.]

The CHAIRMAN. That is what I call a resounding endorsement of the program.

Mr. POWE. Those were the only two times that we in fact lost money, were 2 years of the 5 years that we were in the 8(a) Program.

The CHAIRMAN. I was really interested in your comments about you would not hire any of the technical experts they sent to your firm. Do you have any idea how those people were screened and hired?

Mr. POWE. Well, it would be pure conjecture on my part. I cannot imagine there was any objective process that they had to go through. Certainly there was not a test that they would have had to follow.

I got the impression that it was due to whatever political connections that firm happened to have in that specific area. But they certainly were not competent business people.

The CHAIRMAN. I intend to submit a question to the Administrator and Mr. Gonzalez on how these people are chosen, what kind of a screening process, what kind of background they require, in order to put somebody in the position of holding himself as a technical expert.

And when you consider the diversity of the kinds of businesses they are dealing with, nobody is an expert in janitorial services and computer chips and construction. So you wonder, how do they pick these people? What are the qualifications?

I have a feeling that a lot of these people, and I am reluctant to say this because it may be an unfair criticism, but I have a feeling that this is where some of the political, the politicization of this program may have occurred.

Mr. Gardner, are you profitable yet? Is your company profitable?

Mr. GARDNER. Just barely.

The CHAIRMAN. You say your cash flow is down.

Mr. GARDNER. Just barely at this point.

The CHAIRMAN. You do about $1 million a year?

Mr. GARDNER. Yes.

The CHAIRMAN. What are you doing now, Mr. Powe?

Mr. POWE. About $16 million.

The CHAIRMAN. That is what you are projecting for——

Mr. POWE. Right now as of the end of the first quarter we have had sales of approximately $5 million. But last year sales were $10.5 million.

The CHAIRMAN. You do defense contracting? Is that where some of your 8(a) contracts came from?

Mr. POWE. No. The 8(a) contracts that we did have mostly came from the Department of Labor, Department of Health and Human Services.

Right now we are trying to get a GSA number to sell software to various agencies. That was what I was referring to, and we have been unable to do that—to get that.

The CHAIRMAN. Well, you ought to use your political influence and write the Chairman of the Small Business Committee and see if he can help you get that. [Laughter.]

Mr. POWE. I will certainly follow that advice.

The CHAIRMAN. Incidentally that is the way you get investigated, I understand. [Laughter.]

According to the morning paper, you get special counsel assigned to you when you do things.

Mr. Johnson, is your company profitable now?

Mr. JOHNSON. Not at the moment. We turned a profit in the month of February. We expect to turn one in March and possibly April. But we still have a lot of cutting to do.

We have implemented some austerity measures in our company to try to turn things around. We are developing an aggressive marketing and sales program to try to attempt to turn things around.

But at this point we have not turned a profit at this point during the year. Though we have, as I indicated, we made a little profit in the month of February. We are about $16,000 in the red this year.

The CHAIRMAN. How many 8(a) contracts have you been given?

Mr. JOHNSON. Over the period of time that I was in the program?

The CHAIRMAN. Yes. How long were you in the program?

Mr. JOHNSON. From 1975 to 1985. Ten years. The first 5 years we did not hardly get any contracts. It was primarily a period of training and orientation.

But over the years I guess we probably had 10, maybe a dozen contracts.

The CHAIRMAN. Were most of those GSA contracts?

Mr. JOHNSON. Yes. We had a very large one with the Air Force, and that was the one that SBA terminated at the point, as I indicated, that audited statements were showing that we really needed the contract.

I wrote letters to the district and to the regional offices in 1983 asking them to give us at least 7 years before terminating us from the program. But of course at that point 8(a) sales were approximately 44 percent of our sale volume.

And at that time our cost of sales were increasing, expenditures were increasing at about 12 percent. The audited statements were showing, which we had to submit to the Small Business Administration every 3 months, were showing a $26,000 loss.

Of course, the Small Business Administration apparently paid no attention to the audited statements. And of course our auditor had no way of knowing that we were going to lose about a $40,000 a month account with the Newark Air Force Station.

At the point that it was terminated, like I said, that was the thing that put us on the sled. We are trying to turn it around and are working feverishly to do so. We still have one contract that will end this month, which is with GSA in the city of Dayton, OH.

So one of my recommendations is that where this occurs to 8(a) contractors, I think there needs to be some part of the program that would at least permit such companies that experience those kinds of difficulties, especially when evidence has given rise to that, prior to that termination, that those companies be permitted either extensions or be permitted re-entry into the 8(a) Program.

The CHAIRMAN. Gentlemen, thank you all very much. You have come long distances and prepared good testimony, and we thank you very much for your help and cooperation.

Our next panel is Mr. Manuel Delgado, president of DEL Manufacturing Co., Oxnard, CA, and Mr. Theodore Howard, president of Automated Business Systems and Services, Riverdale, MD.

If you gentlemen will take a seat up here. We will stand in recess for about 2 minutes.

[Recess.]

The CHAIRMAN. Mr. Delgado, your name is first on my list, so feel free to proceed. As I say you are welcome to summarize however you choose to present your testimony.

STATEMENT OF MANUEL M. DELGADO, PRESIDENT, DEL MANUFACTURING CO., OXNARD, CA

Mr. DELGADO. Thank you. It is a pleasure to be here, and thank you for this opportunity.

The brief description of our company, DEL Manufacturing Co., was started by me about 35 years ago, or 34 years ago. We are located in the Los Angeles area, Oxnard actually to be precise.

We are a producer of practice bombs and practice warheads in small rockets for the Air Force, the Navy, and the Marines. Our operation is a manufacturing operation, where we do metalworking primarily.

In addition, since graduating from the 8(a) Program, we are also producing aluminum wheels for the automative market. The de-

cline of the dollar against the yen has made it possible for us to recapture a portion of these Japanese imports.

Our present volume is approximately $20 million per year, and we employ approximately 280 persons and our net worth is about $2 million. Our overall experience with the 8(a) Program has been favorable, although we have experienced our share of frustrations.

When we entered the program we had an employment level of about 25 persons. Our net worth was about half a million dollars. Three years into the program we were almost bankrupt. Our net worth was about a minus $300,000.

It was a very difficult experience for us, going from a very small commercial operation in trying to do business with the Government. We found that we almost had to develop our own bureaucracy to deal with the Government bureaucracy.

It was really overwhelming to us, especially in the area of Government contracting of relatively sophisticated warheads. We went through the learning curve. We hung in there, and we started coming back.

Since that time we have received numerous awards for excellence, including an award for excellence from the Fleet Weapons Engineering Department at the Pacific Missile Test Center.

We were also named SBA Subcontractor of the Year for 1984, SBA Prime Contractor of the Year for 1985, and last year, or in 1985, we were selected the Small Business Minority Defense Contractor of the Year by the Department of Defense.

We found that in order to do any significant amount of business with the Government you first have to establish credibility. This is true also in the commercial business. This takes a while to do, as we found out.

However, the program has enabled us to establish credibility with the Government as well as other commercial things. It has enabled us to grow from a very small company to where we now are able to take on some significant commercial work.

We feel very fortunate that the help that we have received from them has taken us from a level of $2 million or $3 million to $20 million, and we think that from here we can grow much more.

We feel that having jumped all the hoops that you have to go through to do business with the Government, we are now well prepared to do business with the commercial world. It has been very good for us in that respect.

The aspects of the program that were most helpful to us were the 8(a) set-asides that enabled us to negotiate a fair price with the Government. That in itself was a very wonderful experience; a difficult experience. One we had to pay dearly for, but we learned our accounting procedures and how to prepare our bids.

The component of the program that was the least helpful to us was the lack of production continuity, interruptions of up to 6 months, at times when these contracts were commonplace. In this respect I believe that multi-year procurements would be very helpful.

The interruptions are devastating to small firms who are struggling to survive. These interruptions are due primarily to delays that are experienced by the procurement agencies, while waiting each year for Congress to authorize funds on a year-to-year basis.

The type of manufacturing and production that we do, it takes quite a bit to start up; a lot of tooling, and you have to build up your staff. And as you finish that contract, it stops, and you have to lay off people or retrain them and restart them again if you are successful to negotiate a new contract for the following year.

My recommendations for improving the program would be to emphasize multi-year procurements in the manufacturing area of Government procurement. This would not only be very helpful to 8(a) firms, but also to all small firms, whether they be minority or not. It is quite a problem to deal with.

Other than that, I think that the program has certainly been helpful to us, even though it has been a very difficult one and it cost us dearly. It has been overall a very wonderful experience for us. We want to thank the Senators and the SBA for the help that we have received. Thank you, sir.

[The prepared statement of Mr. Delgado follows:]

DEL Manufacturing Company

Re: Senate Small Business Committee Hearing
Tuesday May 12, 1987

Manuel M. Delgado,
President, DEL Manufacturing Company

950 Richmond
Oxnard. CA 93030
Phone: (805) 486-2601

Brief Description

DEL Manufacturing has been in business for 34 years and is a producer of practice bombs, practice warheads and small rocket for the Air Force, Navy and Marines. In addition, since graduating from the 8(a) program, we are producing aluminum wheels for the autorotive after market. The decline of the dollar against the yen has made it possible for us to recapture a portion of these Japanese imports. Our present volume is approximately $20 million per year. We employ approximately 280 persons and our net worth is $2 million.

Our overall experience with the 8(a) program has been favorable, although we have experienced our share of frustrations. When we entered the program, our employment level was 25 people and our net worth was approximately $500,000. Three years into the program we found ourselves almost bankrupt and with a negative net worth of $300,000. The frustrations were mostly due to learning the steps and procedures that are necessary to successfully do business with the government. We found that you have to develop a small bureaucracy to deal with the government bureaucracy.

DEL Marufacturing has received numerous awards for excellence. These include:

* Award for Excellence from the Fleet Weapons Engineering Directorate, Pacific Missile Test Center - 1983.
* SBA Sub-Contractor of the Year for 1984, Region 9.
* SBA Prime Contractor of the Year for 1985, Region 9.
* Dept. of Defense Minority Small Business Contractor of the Year Award for 1985.

We found that to do any significant amount of business with the government, a firm must establish credibility. This is also very true in the commercial world. This usually takes a minimum of 5 years. We therefore feel that a 10 year 8(a) participation term is more realistic. DEL Manufacturing entered the program prior to the adoption of fixed terms and we were in the program a total of 15 years.

a. The aspects of the program that were most helpful to our firm were 8(a) set-asides and the ability to negotiate a fair price.

b. The component of the program that was the least helpful was lack of production continuity. Production interruptions of up to six months were commonplace. In this respect multi-year procurements would be most helpful. Interruptions are devastating to small firms who are struggling for survival. These production interruptions are due mainly to the delays that are experienced by the procurement agencies' while waiting each year for congress to authorize funds on a year to year basis.

DEL Manufacturing Company

Re: Senate Small Business Committee Hearing, May 12, 1987

My recommendation for improving the program would be to emphasize multi-year procurements for 8(a) firms. I believe that multi-year procurements would be in the best interest of everyone since it would enable the small businesses to adequately develop a viable business plan.

DEL Manufacturing has greatly profited from its participation in the 8(a) program and I would like to express our appreciation to the Senators and the SBA for having given us this opportunity which has helped our firm to grow and develop.

The CHAIRMAN. Mr. Howard.

STATEMENT OF THEODORE HOWARD, PRESIDENT, AUTOMATED BUSINESS SYSTEMS AND SERVICES, INC., RIVERDALE, MD

Mr. HOWARD. Thank you, Mr. Chairman. It is a privilege to appear before this Committee.

I am Theodore Howard, president of Automated Business Systems and Services, better known as ABSS, headquartered in Riverdale, MD. ABSS has been in business for a little over 15 years. It was incorporated in March 1972.

Today we employ over 200 employees. Our 1986 revenue was $26 million. ABSS graduated from the program a little over 2 years ago.

ABSS found that being a part of the 8(a) Program offered us the opportunity to demonstrate our ability to be awarded contracts which otherwise have been unavailable to us. In the early years the 8(a) Program also enabled us to go out and seek financing.

The component of the program which we found least helpful was inconsistency in the SBA rules and regulations, and a lack of specialization among the SBA employees.

The length of time in the program permitted us to expand from a high-volume, low-risk data entry firm, to our present status as a fully competitive systems integrator. We sell, we install, we maintain computers. And we also train personnel on the use of computers.

Since our graduation we transitioned from a set-aside community to a competitive marketplace. Our stay in the program also permitted us to build a highly regarded staff of ADP professionals and to establish $10 million in lines of credit with major banks in the Washington, DC area.

Insofar as the fixed program participation, we support the fixed program participation. As to how the program may be strengthened or improved, I would suggest the following:

One, we should look at restructuring the size standards.

Two, I think there should be a transition period for those firms that have graduated from the program.

Three, I think, there should be a requirement that the firms in the first 5 years of the program compete strictly on a technical basis, and from 5 to 10 years those firms should have to compete both on a technical and cost basis.

Four, improve the skill level within the SBA.

As to the certification process itself, I would recommend that an increased emphasis be placed on the business and financial aspect of the person that is applying for 8(a) status. I think that there should be a basic test—financial business test—that each person that applies for 8(a) would have to take and pass before being certified.

Thank you.

[The prepared statement of Mr. Howard follows:]

GOOD MORNING. MR. CHAIRMAN (AND) MEMBERS OF THIS COMMITTEE

I AM THEODORE HOWARD, PRESIDENT OF AUTOMATED BUSINESS SYSTEMS AND SERVICES, INC., HEADQUARTERED IN RIVERDALE, MARYLAND.

ABSS HAS BEEN IN BUSINESS FOR 15 YEARS. WE WERE INCORPORATED IN MARCH 1972.

ABSS IS A SYSTEMS INTEGRATION FIRM -- THAT IS A FIRM PROVIDING ALL FACETS ASSOCIATED WITH AUTOMATIC DATA PROCESSING, SUCH AS HARDWARE, SOFTWARE, MAINTENANCE, FACILITIES MANAGEMENT AND TRAINING. WE HAVE APPROXIMATELY 200 EMPLOYEES AND HAD REVENUES OF $26 MILLION DURING OUR FY'86.

ABSS ENTERED THE SBA 8(a) PROGRAM IN 1975, AND GRADUATED OUT OF THE PROGRAM IN APRIL 1985. WE HAVE BEEN OUT OF THE PROGRAM A LITTLE OVER 2 YEARS NOW.

IN RESPONSE TO YOUR REQUEST FOR "GENERAL COMMENTS," ABSS FOUND THAT BEING A PART OF THE 8(a) PROGRAM OFFERED US THE OPPORTUNITY TO DEMONSTRATE OUR ABILITIES TO BE AWARDED CONTRACTS WHICH MIGHT OTHERWISE HAVE BEEN UNAVAILABLE TO US. ABSS FEELS THAT COMPETING AGAINST OTHER 8(a) FIRMS ON A STRICTLY TECHNICAL BASIS WAS MOST HELPFUL TO OUR CORPORATE GROWTH. THIS TYPE OF ACTIVITY PERMITTED US TO SHARPEN OUR SKILLS AND INCREASE OUR COMPETITIVENESS AND AREAS OF EXPERTISE WITHIN A LIMITED COMMUNITY.

THE COMPONENTS OF THE PROGRAM WHICH WE FOUND LEAST HELPFUL WERE INCONSISTENCY AND A LACK OF SPECIALIZATION.

FOR EXAMPLE -- IN SYSTEMS INTEGRATION CONTRACTS, HARDWARE PURCHASE IS GENERALLY A SIGNIFICANT PERCENTAGE OF THE CONTRACT AWARD. UNDER THE 8(a) RULES, THE SERVICE PORTION OF THE CONTRACT MUST BE AT LEAST 55% OF THE CONTRACT VALUE. THE 8(a) "WEIGHTED" SYSTEM SEEMS TO BEAR LITTLE RELATIONSHIP TO THE COMPETITIVE MARKETPLACE IN THIS REGARD.

AND, AS FOR A LACK OF SPECIALIZATION, PERSONNEL WHO STAFF THE VARIOUS KEY POSITIONS AT SBA AND WITH WHOM FIRMS MUST INTERFACE OFTEN LACK KNOWLEDGE AND AN APPRECIATION OF THE ELEMENTS WITH WHICH A FIRM MUST DEAL AND THE ASSOCIATED ASSISTANCE WHICH THEY SEEK.

THE LENGTH OF TIME IN THE PROGRAM PERMITTED US TO EXPAND FROM A HIGH VOLUME, LOW RISK DATA ENTRY FIRM TO OUR PRESENT STATUS AS A FULLY COMPETITIVE ADP SYSTEMS INTEGRATOR. IN ADDITION, IT PERMITTED US TO ESTABLISH A CONTRACT BACKLOG WHICH HAS SUSTAINED US DURING THE TWO YEARS SINCE OUR GRADUATION WHILE WE TRANSITIONED FROM THE SET-ASIDE COMMUNITY TO THE COMPETITIVE MARKETPLACE. OUR STAY IN THE PROGRAM ALSO PERMITTED US TO BUILD A HIGHLY REGARDED STAFF OF ADP PROFESSIONALS AND TO ESTABLISH $10 MILLION IN LINES-OF-CREDIT WITH MAJOR BANKS IN THE WASHINGTON DC AREA.

INSOFAR AS THE EFFECTIVENESS OF THE FIXED PROGRAM PARTICIPATION TERM (FPPT) IS CONCERNED, ABSS SUPPORTS THE FPPT. HOWEVER, WE FEEL THE TERM OF THE FIXED PROGRAM PARTICIPATION SHOULD BE EXTENDED TO 10 YEARS, WITH A SYSTEM TO COMPETE ON A TECHNICAL BASIS ONLY DURING THE FIRST 5 YEARS IN THE PROGRAM, AND A REQUIREMENT TO COMPETE FOR BOTH TECHNICAL AND COST REQUIREMENTS DURING THE FINAL 5 YEARS.

AND AS TO HOW THE PROGRAM MAY BE STRENGTHENED OR IMPROVED, I WOULD SUGGEST THE FOLLOWING:

1. RESTRUCTURE THE SIZE STANDARDS. IT IS ENTIRELY POSSIBLE, WITH ONLY ONE CONTRACT AWARD, AVERAGED OVER 3 YEARS, TO EXCEED THE REQUIREMENTS OF THE PROGRAM.
2. PROVIDE A TRANSITION PERIOD FOR FIRMS GRADUATING FROM THE PROGRAM SUCH THAT, ALTHOUGH THEY ARE NO LONGER BENEFITING FROM 8(a) AWARDS, THEY MAY BE ALLOWED TO RECEIVE ASSISTANCE FROM THE SBA; i.e.: A "GRANDFATHERING" TO ALLOW COMPANIES TO COMPETE ON SMALL BUSINESS SET-ASIDES FOR A PERIOD OF 3-5 YEARS; SOME FINANCIAL SUPPORT FOR THOSE COMPANIES DURING THIS TIME PERIOD; AND/OR SOME TRACKING SYSTEM FOR MONITORING THE PROGRESS OF RECENTLY GRADUATED COMPANIES.

3. REQUIRE FIRMS, WHICH HAVE BEEN IN THE PROGRAM FOR 5 YEARS, TO COMPETE ON A COST, AS WELL AS TECHNICAL, BASIS. SUCH COMPETITION, EVEN WITHIN THE SHELTERED MARKET, WILL CAUSE THE FIRMS TO DEVELOP THEIR BIDDING SKILLS AND BETTER PREPARE THEM FOR THEIR GRADUATION AND ENTRY INTO THE TOTALLY COMPETITIVE COMMUNITY.
4. IMPROVE THE SKILL LEVELS WITHIN SBA ITSELF SUCH THAT THERE IS A KNOWLEDGEABLE ELEMENT WITH WHICH A FIRM MAY COMMUNICATE FOR ADVICE, GUIDANCE, ETC.

AS TO THE CERTIFICATION PROCESS ITSELF, I WOULD RECOMMEND THAT INCREASED EMPHASIS BE PLACED ON BUSINESS PROCEDURES AND FINANCIAL ASPECTS OF RUNNING A BUSINESS. AN SBA-SPONSORED BUSINESS AND FINANCIAL MANAGEMENT COURSE, INCLUDING TESTING, PRIOR TO BEING CERTIFIED, WOULD ASSIST THE INTELLIGENT SURVIVABILITY OF MANY FIRMS AND ENSURE A MORE POSITIVE APPRECIATION OF THE 8(a) PROGRAM.

QUESTIONS FROM SENATOR WEICKER AND ANSWERS BY MR. HOWARD

1. You cited control growth as the most extreme problem facing your firm today in your survey response. Please explain how you are dealing with the fast growth of your company/and what advise do you have for other 8(a) firms in your industry in this regard?

RESPONSE: Controlled growth is not a problem, per se; rather, it is a concern which our company always included in our long-range planning. We did not want to have to gear up rapidly and overextend our resources (e.g., quality, capability, credit, etc.). Rather, we planned an annual growth of 20-25% and in achieving this goal, we maintained a steady but controlled growth -- one with which we were comfortable and one with which our reputation and resources could survive.

2. Many 8(a) program participants argue that a firm should take advantage of as much sole source work as possible once in the program because of the very limited time the 8(a) opportunity is available. Your position seems to be just the opposite in that you felt you should not become dependent on 8(a) work. Would you like to comment on your view of how 8(a) should be used by firms?

RESPONSE: Sole source work is fine; it gives a company definite tasks to be performed and attendant income. The sole source awards need to be tailored to ensure growth -- not merely vegetation. However, an 8(a) firm must neither be encouraged nor permitted to exist within the program on sole source (set-aside) work alone. That is why I heartily suggest that, after five (5) years in the program, firms be required to compete on a cost, as well as technical, basis. It is necessary to a firm's ultimate survivability to be able to do so, and to be required to do so by the SBA -- while still under the 8(a) program -- would strongly enhance this ultimate survivability.

3. Did SBA assist your firm in preparing bids for non-8(a) awards? Would this have been helpful to your business in obtaining competitive contracts?

RESPONSE: SBA did not so assist ABSS. If this expertise existed/exists, it most certainly would have been helpful when bidding competitively.

4. Should SBA limit the amount of 8(a) contracts a firm receives in the final few years of the program? Should Congress prohibit the award of large contracts or "graduating presents" to minority firms just prior to their departure from the program?

RESPONSE: My response to both questions is "no." Firms should be permitted to be awarded contracts for which they are qualified and capable of handling without embarrassment to themselves or SBA. These contracts permit the firms to expand their skill base and to grow professionally. They also establish the revenue basis for graduation from the 8(a) program and are the nucleus from which the firms draw while transitioning to a totally competitive environment.

5. When you graduated from the program, what percentage of your sales were 8(a) contracts? In your judgement, what would be the effect of tying the amount of 8(a) support to the amount of competitive work that a firm receives? For example, for each dollar of competitive contracts that a firm receives equal amounts of 8(a) contracts would be awarded to that firm.

RESPONSE: Upon graduating, fifty percent (50%) of the contracts ABSS had been awarded that year were awarded competitively. However, to tie 8(a) dollars to competitive dollars would adversely impact firms with perhaps specific skills which need refinement, or which are new to the program. To use such an award measure in the latter years of a firm's participation in the program may have more merit, but is still prone to limitless parameters/variables, such as requirements, resources, costs-to-bid, financing, etc.

6. You were required by SBA to develop a business plan which established targets and goals for your business. Please explain to the Committee how your business plan was used while you were in the program? How often did you meet with your business development specialist to review your plan? What changes do you suggest for more effective use of the business plan?

RESPONSE: ABSS was required to develop and submit to SBA a business plan (with goals and objectives) each year. Our business plan was used as a guiding instrument during any given year's activity and as a yardstick to measure the success attained relative to the projection. The business plans were never discussed with or questioned by the business development specialists. And if a recommendation is to be made, it would be to encourage SBA involvement in the setting of goals and objectives and in the appraisal of success/failure attendant thereto.

7. What do you view as an adequate period of transition for 8(a) firms to the private marketplace and please briefly state how it should be structured?

RESPONSE: The current ten (10) year projection period for transitioning firms from the 8(a) program to the private marketplace seems adequate. Certainly exceptions will arise but the 10-year concept should be ample time within which to reach maturity. Insofar as structure is concerned, my previous recommendations remain unchanged and apply to competitive 8(a) awards only:

-- Five (5) years competing on a technical basis.
-- Five (5) years competing on a cost, as well as technical, basis.
-- Following graduation, a 3 - 5 year "grandfather" period wherein firms may continue to compete for small business set-asides in the area of their established expertise. They would, however, be excluded from benefiting from 8(a) set-asides.

And again, sole source awards have to be considered with the firm's total growth and capabilities in mind.

8. Did you have contact with MBDA prior to or since graduation from the 8(a) program? Was this contact helpful to you in making the transition to the private sector and were you notified by MBDA or did you initiate the contact?

RESPONSE: No contact has been made with the MBDA, either prior to or since graduating from the 8(a) program. Contact was not initiated by MBDA nor ABSS; therefore, the potential helpfulness of such contact to ABSS, in making the transition from the 8(a) program to the private sector is unknown.

9. Many respondents to the survey felt "politics" should be removed in operating the program. What do you think respondents meant and what is your opinion of the role politics does or should play?

RESPONSE: First, there should be no "politics" in the program for the program was established for all who qualified as "small and disadvantaged" under the guidelines set forth therein. As to what respondents mean or meant by "politics," it is possible that some feel other firms received favoritism when sole source awards were granted; when firms with similar capabilities/qualifications are evaluated; when firms are selected to compete technically; etc. To be specific would certainly require detailed discussions with those firms who feel "politics" is a significant factor within the program.

10. What three areas of the 8(a) program in your opinion are most in need of reform in order to make it a more effective and efficient program to ensure greater minority business participation in our nations's economy?

RESPONSE: 1) Improve the skill levels within SBA itself so as to establish knowledgeable elements to whom 8(a) firms may turn for advice, assistance, constructive evaluation/criticism, business plan development, etc.

2) Increase emphasis on the business procedures and financial aspects of running a business prior to certifying a firm under the 8(a) program. Such a process would enhance a firm's survivability under the program and minimize the impact of critical phases through which a firm must pass.

3) Restructure the size standards to more accurately reflect/acknowledge the higher dollar volumes associated with certain SIC codes and to recognize one large contract award (regardless of how awarded, i.e., 8(a), competitive, etc.) does not and should not require a firm to be graduated from the program. Graduation should be based on true corporate growth and experience; realistic size standards; and a contract base from which a firm may draw while transitioning to a fully competitive marketplace.

The CHAIRMAN. Mr. Delgado, are you out of the program now?

Mr. DELGADO. Yes, Senator.

The CHAIRMAN. How long were you in it?

Mr. DELGADO. All together, about 15 years. However, the first 5 years nothing very much happened.

The CHAIRMAN. Could you have made it without it?

Mr. DELGADO. I was profitable already when I went into it.

The CHAIRMAN. You were profitable when you went into the program?

Mr. DELGADO. Yes.

The CHAIRMAN. How many employees did you have at the time?

Mr. DELGADO. Twenty-five. And we were making a living and sort of growing. And 2 to 3 years into it I was almost broke.

The CHAIRMAN. Was that because of the program?

Mr. DELGADO. Once I got into the program, yes.

The CHAIRMAN. You were profitable and you went into the program, and you testified that within 2 to 3 years you had a negative net worth of $300,000.

Mr. DELGADO. Yes, Senator.

The CHAIRMAN. What did they do to cause that?

Mr. DELGADO. Well, they did to the extent that I had great hopes for the program, and I spent all of the money that we had to tool up to do a given job. And I borrowed everything I could and everything they would lend me.

I am into the hole $700,000 or $800,000 for tooling up to do this bomb that——

The CHAIRMAN. You got that loan from SBA?

Mr. DELGADO. I got a loan from them, from my home, and everywhere else I had. Then we started, we did the program. Then no more procurements for a couple of years.

So in the meantime I owe everyone. I have all my resources committed to this, much larger contract than I had ever done before. So I was able to hang in there. I talked to all my creditors and I did not really have to go bankrupt but pretty much I was, to the extent that I worked out a repayment program over 5 years with them.

Then the thing started to come back and they gave me the contract again, for which I was now tooled, and I started to build myself back up.

The CHAIRMAN. I think it was you, Mr. Howard, that made the point which I think is probably the best reason for continuing the 8(a) Program, and that is you said that certain contracts were made available to you that would never have been available to you otherwise. Were you the one that said that?

Mr. HOWARD. Yes, sir.

The CHAIRMAN. And the point has been made here that there is a certain mindset in the financial community, as well as in the manufacturing community, that minority businesses simply cannot perform as other businesses do.

And if that is true, and I expect it is true, then this program serves the purpose of saying we are going to at least give this company a chance which they might not otherwise get.

Obviously, in your case you not only got the chance but you performed. Now you say you have been out of the program about 2 years?

Mr. HOWARD. Yes, sir.

The CHAIRMAN. How are you doing now?

Mr. HOWARD. Very well. Last year our revenue was $26 million. The first 9 months of this fiscal year we had revenue of $16 million. We had pre-tax profit of $900,000.

We are having our share of problems, but we are resolving those problems and I think we will continue to grow.

The CHAIRMAN. It seems to me that you are in one of the most intensely competitive businesses in the Country. And the fact that you have been able to do that really speaks very well for you, and you are continuing to grow.

Everybody I know is in the same business you are in. It is like consulting firms in Washington. Everybody is a consultant.

Well, gentlemen, you have both given very good testimony, very positive testimony. This program and your experience with it shows that it is not all bad, despite some flaws in it.

I continue to be concerned about a host of things that have been raised here this morning, and hopefully we will be able to refine this program and amend it and change it so that it will address some of your concerns.

I have the feeling that if we are really serious about continuing this program and trying to promote minority business in this Country, we are going to have to insist that the Small Business Administration, or at least the people who administer this program, when they are hiring experts and consultants, go out and try to guide you and help you, that they be somebody that knows more than you do.

I always try to hire people on my staff that are smarter than I am, and if they are not any smarter than I am I do not need them. And if I were going to start a popcorn business I would try to find somebody who had been successful in the popcorn business. Does that not make sense?

Mr. DELGADO. Absolutely.

The CHAIRMAN. This is the thing that is probably as troublesome to me, but I want to find out if this Agency has been politicized and to the extent, what extent it has been. Unhappily, I wish we had reversed the order of witnesses.

I would like to have heard from the witnesses and then the Administrator and Mr. Gonzalez, because I would have had a lot more questions to ask and I am going to submit some questions to them in writing, the principal one being, how do you choose these technical experts?

But, in any event, your testimony has been very good and very helpful this morning, and I want to thank both of you very much for preparing your testimony, at some inconvenience and expense to yourself, coming here to be with us. Thank you very much.

[Material follows:]

QUESTIONS FROM SENATOR DALE BUMPERS

1. Q. The witnesses representing former 8(a) companies commented on the inability of 8(a) program field technicians to assist them with their business needs. The Committee has also received several inquiries concerning these field representatives and their failure to provide needed assistance. What specific requirements must applicants meet who wish to serve as 8(a) field technicians?

   A. Attached is a vacancy announcement for a Business Opportunity Specialist which lists a description of duties as well as the qualifications required for the position.

   Q. Does SBA provide any extensive training program after these technicians are hired? Would you agree that the representatives' lack of expertise in the areas in which they assist 8(a) participants is a problem that needs immediate attention? To what extent is the politicization of the program due to the role that these field technicians play?

   A. We are in the process of developing a career development training program for business opportunity specialists.

2. Q. Due to the imperative need to improve the 8(a) program, we must also give consideration to the proposed MBDA transfer from Commerce to SBA. How do you plan to implement this transfer? It was indicated at the hearing that the Minority Business Development Office at SBA had prepared the fourth in a series of plan drafts which was now under review by the Office of Management and Budget. Will you please provide the Committee with a copy of that draft and make plans to review the draft with Committee staff by June 1 or the earliest possible date?

   A. We are still in the process of developing, in coordination with the Department of Commerce, Minority Business Development Agency (MBDA) and the Office of Management and Budget, a plan for implementing the proposal to transfer MBDA from the Department of Commerce to the Small Business Administration (SBA). Upon completion of this plan we will make it available to the Committee Staff for discussion.

Q. How many positions which now exist in Commerce will be lost in the transfer?

A. Present plans provide for the transfer of 140 full-time equivalent (FTE) positions to SBA. The 140 positions have been identified as those positions responsible for the management and implementation of the Minority Business Development Center (MBDC) program. If additional MBDC management and implementation positions are identified in the future, we anticipate an appropriate increase of the number of transferred positions. SBA proposes to utilize all available tools to minimize all adverse impact on Agency employees.

Q. Do you believe that the reforms presented in legislation as H.R. 1807 will model 8(a) programs so similar to MBDA programs that the transfer may become an integral part of 8(a) reform?

A. The transfer will provide SBA with a stronger management and technical assistance component to support the 8(a) program and at the same time maintain the identity of the 7(j) and MBDA management and assistance programs.

3. Q. During the hearing, I referred to a May 11 Wall Street Journal article which recounted the histories of several 8(a) participants which received large or numerous contract awards prior to graduation and then sold their companies soon after graduation. Mr. Gonzalez stated that although SBA had discontinued the practice of providing 8(a) graduates with such gifts, the agency was not permitted under current regulations or statutes from placing restrictive clauses in the 8(a) contract awards that would prevent the 8(a) company from selling or otherwise transferring those contractual rights and obligations to another party.

Which statute sections and/or regulations was Mr. Gonzalez referring to and how do they prohibit the agency from placing such restrictions on 8(a) participants? Are you currently developing regulations to remedy this situation?

A. The problem of transfer of ownership by section 8(a) program participants and/or of transfer of contractual rights and obligations is one currently under consideration by the Agency. The Agency is currently impaired in its ability to address this situation by applicable contract clauses.

The Anti-Assignment Act, 41 U.S.C. section 15, on its face prohibits the assignment of Government contracts. Case law has interpreted this provision, however, as not automatically nullifying contracts that have been assigned. Instead, it permits the Government to recognize assignments deemed to be in the Government's best interest. Conversely, where the Government does not believe recognition of the assignment to be in its best interest, it can refuse to recognize the assignment. If the original contractor does not proceed, the Government may declare it in default and terminate the contract.

The procedures for recognition of assignments of 8(a) contracts is governed, in part, by the Special 8(a) Contract Conditions and Special 8(a) Subcontract Conditions, 48 C.F.R. sections 52.219-11 and 52.219-12, respectively, which both SBA policy and regulations and the Federal Acquisition Regulations (FAR) require to be included in each 8(a) contract. Those clauses delegate contract administration authority over the subcontract between SBA and the 8(a) concern to the procuring agency. Pursuant to 48 C.F.R. section 42.302, contract administration includes the authority to approve contract novations. Novation is required to facilitate transfer of Government contracts from one contractor to another, included from an 8(a) concern to a successor company, pursuant to section 42.1204(a) of the FAR.

The Agency is in the process of evaluating possible alternatives to the current special contract condition language. Such alternatives might include reserving the authority to approve novations and to take other contract administration actions to SBA, imposing limitations on the transferability of the contract by making such a transfer a possible ground for declaring default, or possibly, making the transfer of the contract without both SBA and procuring agency approval, a cause for voiding the contract. The Agency has not completed its evaluation of the problem and the possible methods of correcting this possible abuse of the program. The Office of General Counsel, together with the Office of Minority Small Business and Capital Ownership Development, has developed a proposal which is being circulated within the Agency for discussion purposes. Upon completion of that in-house evaluation, the Agency expects to propose modifications to the FAR clauses and, to the extent necessary, to the applicable program regulation and FAR provisions.

The CHAIRMAN. With that the Committee will stand, oh, just before we do that, let me state some acknowledgements for the record, that we want to express our appreciation to the following persons who have formulated and completed the survey that is being presented today.

We especially thank Dr. Dan Melnick, Congressional Research Services, Frank Gocal, Senate Computer Center, Dr. Al Shelly, Senate Computer Center, Dr. Orhan Yildiz, Senate Computer Center, Constance Sullivan, Senate Service Center, Ida Suraci and staff, Senate Service Center, Edward Neal, Small Business Administration, Douglas Smith, Small Business Administration, Steve Denlinger, Latin American Manufacturers Association, Ralph Thomas, National Association of Minority Contractors, Dr. Elizabeth Pan, National Federation of 8(a) Companies, and Joseph Duncan, Dun and Bradstreet.

Thank you very much. The leaving is adjourned].

[Whereupon, at 11:20 a.m. the hearing was adjourned.]

A P P E N D I X

TESTIMONY

OF

CARL A. BROWN

ON BEHALF OF THE

NATIONAL FEDERATION OF 8(a) COMPANIES

BEFORE THE SENATE COMMITTEE ON SMALL BUSINESS

MAY 12, 1987

10.00 A.M.

Mr. Chairman and distinguished members of the U.S. Senate Committee on Small Business:

I appreciate this opportunity to testify on behalf of the National Federation of 8(a) Companies and present testimony on the experiences of our 8(a) membership and the effectiveness of the 8(a) program in providing business development opportunities.

I am Carl A. Brown, CEO of MANDEX, INC., an 8(a) certified high technology professional services government contractor, and member of the Executive Committee of the National Federation of 8(a) Companies.

My firm is 13 years old, and is in the telecommunications engineering and computer related services industry. We currently have 265 employees and should have 1987 sales of approximately $16 million dollars. We are less than a year away from graduation and are attempting to prepare for that event.

The 8(a) program provides a tremendous competitive advantage to a minority businessman which allows him, with a little luck, and good management, to temporarily overcome the multiple disadvantages of years of discrimination and perhaps achieve momentary parity with his non-minority counterpart. At this point the 8(a) firm should ideally graduate. Should the 8(a) Program die at this precise instant, the American ideal of equal opportunity would have been achieved and the

former 8(a) firm would go on to succeed or fail on the approximately same basis as the non-minority firm.

Thus the existing system creates the strange result that current 8(a) firms and graduated 8(a)'s are oft times pitted against each other for the same government work. Clearly the incentives of the system are perverted.

For example, from observations of many 8(a) firms in their final phase of the 8(a) program and reactions of federal agency people, one notices the following:

1. As graduation day approaches, senior members of the 8(a) firm's Management Team begin "deserting the sinking ship". They join a new or younger 8(a) firm. Here, they use their contacts to move the 8(a) follow-on contracts to the new 8(a) firm. A senior non-minority member of the Management Team says, in effect, "Sorry, Mr. President, that you have to leave the 8(a) Program. "Good luck".

2. Agencies tend not to exercise option years on contracts, even though the 8(a) firm is doing a good job, since they want to meet their 8(a) goals by giving the old contract effort to a new 8(a) firm. The staff will eventually leave, following the contract.

3. When an 8(a) firm graduates, the 8(a) requirement generally does not graduate. This the former 8(a) firm cannot compete against non-minority firms in precisely those areas where it has developed capability but must compete where it has not developed capability.

4. Even though the SBA states that the 8(a) firm can receive 8(a) contracts up to mid-night on graduation day, federal agencies start avoiding 8(a) firms in their last year for fear of getting the procurement "stuck" and therefore "lost" because of time constraints. Its easier to go to an 8(a) firm with more time in the program.

To alleviate these problems and not have the 8(a) program a "revolving door" project, transition programs are necessary. The Subcontracting Provision (Section 211) of Public Law 95-507 provides a transition opportunity opportunity to the private sector, but Contracting Officer enforcement is solely needed.

Section 1207 of Public Law 99-661 (The Department of Defense 5% Contract Goal) provides a second transition opportunity. If it is used properly, this law could provide a transition program and model for other government agencies.

UNITED STATES DEPARTMENT OF COMMERCE
Minority Business Development Agency
Washington, D.C. 20230

May 26, 1987

Honorable Lowell Weicker, Jr.
United States Senate
Washington, D.C. 20510

Dear Senator Weicker:

Thank you for your letter regarding the Minority Business Development Agency's (MBDA) efforts to assist firms participating in the Small Business Administration's (SBA) 8(a) Program.

MBDA continues to recognize the importance of assisting 8(a) firms, especially those nearing graduation and those already graduated from the 8(a) Program. However, it is of equal importance to recognize the respective roles and capabilities of MBDA and SBA to better appreciate the specific involvement of this Agency. The 8(a) Program is soley the responsibility of SBA. By signing the MBDA/SBA Interagency Agreement in March 1982, MBDA agreed to "the cooperative use of its resources, talents, and facilities in furtherance of providing effective and efficient assistance to the socially and economically disadvantaged minority small business community." Coordination between MBDA and SBA occurs regularly at both the field and headquarters levels.

This Agency has a client base of substantial size since we serve all minority firms. Last fiscal year (1986) our client load exceeded 14,000. There are over 1 million minority business enterprises (MBE) and over 400,000 have paid employees. [There are approximately 3,000 8(a) firms.] Many of the non-8(a) firms are quite large and have needs as critical as those of 8(a) firms. With our limited resources, we cannot specifically target the 8(a) firms, because to do so would be to the detriment of the vast majority of MBEs. Through cooperative and special efforts, we devote energies and resources to assist 8(a) firms within our existing program structure.

It continues to be MBDA's objective to provide management and technical assistance, identify public and private sector resources and opportunities, and direct MBEs to such resources and opportunities. These services and resources are voluntary from the standpoint of firms utilizing them, whether or not they participate in the 8(a) Program.

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The nature of the 8(a) program, as we view it, creates an environment whereby many of the firms do not obtain much experience in marketing themselves in the private sector, especially during their early years in the program. Thus, in the process of transitioning or following graduation, these firms face a new reality to which they are unaccustomed. MBDA, unlike SBA, does not provide direct contracts/procurements or financial assistance. MBDA functions mainly as a "broker" in financing and procurement efforts involving MBEs. Most 8(a) firms are accustomed to receiving sole-source (non-competitive) procurement contracts and direct financing and business development expense funds from SBA. Therefore, it is not surprising that, during transition or immediately after graduation, 8(a) firms do not find the MBDCs in a position to provide them the "direct" benefits to which they are accustomed.

The survey findings, as they pertain to MBDA, do not tell the whole story. Unlike SBA, MBDA delivers most of its services through various intermediaries. These funded intermediaries, in most cases, are required to record services provided to 8(a) firms. [Our own records prove that the "limited" survey findings do not in fact present an accurate picture of our service to 8(a) firms.] The enclosed chart provides data on MBDA's assistance to 8(a) firms as a percentage of assistance provided to the Agency's total client load during the periods FY 1983-FY 1986. Minority Business Development Centers are assisting an average of 507 8(a) firms per year or 16.9 percent of the 8(a) universe.

Further, since we create opportunities for MBEs through intermediaries, and by encouraging the "environment" to be more responsive to MBEs, most 8(a) firms (graduated and transitioning) no doubt receive positive service from some source which MBDA is responsible for funding, e.g., our State and Local Government Program and Trade Association Program. When an 8(a) firm receives a contract or financing through the assistance of another source, that source may in fact be connected to MBDA, and the 8(a) firm is unaware of this fact.

One of MBDA's principal intermediaries has been the National Minority Supplier Development Council (NMSDC), which has aided tremendously in assisting minority firms to gain access to business opportunities in the private sector. We continue to work cooperatively with that organization and its network although the funding relationship has changed to a more specific thrust--demonstration projects. As an element of the transition strategy, we included specific requirements in the NMSDC's 1985 award to assist 8(a) firms. We collaborated with SBA on this effort and obtained mailing labels of selected firms--more than 800. Many of the letters inviting 8(a) firms to participate were returned for reasons similar to these cited in your survey, e.g., "return to sender" or "no forwarding address." In spite of that, the NMSDC reported that 233 8(a) firms participated during the period as

suppliers. The NMSDC reported $8 billion in purchases from MBEs by its corporate members during the 1985 calendar year. The report does not include the names of participants in order to maintain the confidentiality of the buyer/seller relationship. Copies of materials related to this effort are also enclosed.

I certainly appreciate your giving us the opportunity to present our views and provide information for the record and, I assure you that the survey's findings and recommendations will be carefully considered as we approach final drafting of a new agreement with SBA.

Sincerely,

James H. Richardson Gonzales
Director

Enclosures

MINORITY BUSINESS DEVELOPMENT AGENCY

MBDC Performance Categories	FY1983 TOTAL	FY1983 %8(a)	FY1983 #8(a)	FY 1984 TOTAL	FY 1984 %8(a)	FY 1984 #8(a)	FY 1985 TOTAL	FY 1985 %8(a)	FY 1985 #8(a)	FY 1986 TOTAL	FY 1986 %8(a)	FY 1986 #8(a)
Total Clients Assisted	16541	3.5	573	9249	5.3	494	13886	3.5	487	13,627	3.5	477
M&TA Hours Provided	447,372	7.5	33,748	434,185	5.8	25,286	327,220	7.0	22,716	239,709	8.2	19,679
# Contracts	4182	13.1	199	7041	19.0	1321	5664	19.6	1110	4906	19.7	966
Value of Contracts ($ millions)	$535.2	30.6	$163.8	$831.8	26.0	$223.9	$738.2	35.8	$264.5	$802.5	44.6	$358.4
#Financial Packages	1418	8.0	113	2662	8.9	237	2032	10.7	219	1665	10.9	181
$Value of Financial Packages ($ millions)	$190.7	8.0	$33.7	$373.1	19.1	$52.4	$356.1	64.4	$229.4	$377.7	13.7	$51.6

UNITED STATES DEPARTMENT OF COMMERCE
Minority Business Development Agency
Washington, D.C. 20230

MAY 28 1985

The Minority Business Development Agency (MBDA), through the National Minority Supplier Development Council (NMSDC), has started a program to assist firms such as yours in obtaining sales from the private sector.

The primary objective of the NMSDC and its network of regional councils is to expand business relationships between major corporate purchasers and minority suppliers of goods and services. There are currently 45 regional councils and almost 1300 corporations (representing more than 2300 individual buying facilities) participating in NMSDC programs. These corporations reported $5.7 billion in purchases from minority businesses during the 1983 calendar year. Since the organization's inception in 1972, the results have reflected steady growth over the years and we expect further increases in dollar volume and number of minority firms establishing successful buyer/seller relationships in future years.

The NMSDC has agreed to assist the Agency in its efforts to aid current and former 8(a) firms. If you are interested in becoming involved in these activities, please return the enclosed response card in the envelope provided.

Your cooperation will certainly be appreciated.

Sincerely,

Joseph N. Cooper
Assistant Director
for Resource Development

Enclosure

National Minority Supplier Development Council, Inc.
1412 Broadway, 11th Floor / New York, NY 10018 / (212) 944-2430

Chairman
F. James McDonald
President
General Motors
Corporation

Vice Chairman
Richard P. Baribault
Vice President,
Procurement
Aluminum Company
of America

Treasurer
G. Wilbur Little
First Vice President
(retired)
Indiana National
Bank

Secretary
Charles Douglas Dixon, Esq.
Attorney-at-Law
Sterling Drug, Inc.

Executive Director
Benjamin E. Jones

June 12, 1985

LETTER TO NMSDC MEMBERSHIP

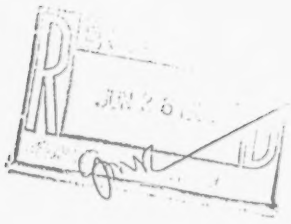
Dear :

As you are aware, NMSDC has been awarded a grant by the Department of Commerce to operate a national market development project. Under the terms and conditions of the 1985 MBDA award, NMSDC will be assisting 8(a) firms who have graduated or will be graduating shortly from the Small Business Administration's (SBA) 8(a) program, to aid their transition from the public sector to the private sector.

Let me take a moment of your time to give you some background information on the SBA 8(a) program and the commitment that NMSDC has made to these 8(a) firms.

Section 8(a) of the Small Business Act ("the Act") 15 U.S.C. 637(a) established a business development program under which SBA enters into contracts with other federal agencies and then arranges for the performance of such contracts by negotiating or otherwise awarding subcontracts to socially and economically disadvantaged concerns.

SBA has set up very stringent procedures for processing and approving 8(a) certification. To be eligible for participating in contracts awarded under this program, the firms have to prove their capability to handle the contracts. This involves a thorough screening of the company personnel, their skills and capabilities and also a close scrutiny of the company's financial records.



NMSDC has been entrusted with the responsibility of helping a select number of 8(a) firms in their transition from exclusive government contracting into the mainstream of commerce and industry and to enhance the growth capabilities of these firms in terms of potential sales and employment of additional minority workers. In short to expand the scope of their abilities!

Please note that NMSDC will only be assisting those socially and economically disadvantaged 8(a) firms who fall within our definition of minority-owned firms.

The process is already underway. MBDA has been mailing the listing of such graduating 8(a) firms within their particular geographic area to the various funded councils in the NMSDC Network.

While only 28 funded councils are presently participating in this effort, we feel that all the corporate members and all the NMSDC Regional Councils throughout the country can benefit by working closely with 8(a) firms. You will find that helping the 8(a) firms in their transition will indeed be a worthwhile effort as you will be able to get some highly qualified suppliers to meet your procurement needs. We shall soon be notifying the regional council in your area to follow this up.

For further information, please contact the undersigned.

Sincerely,

Benjamin E. Jones
Executive Director

BEJ:CN/tlc

cc: C. Nargolkar